The rise and fall of wealth taxation:
an inquiry into the fiscal history of the American states
Volume One

by

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Table of contents

Acknowledgments ii

List of figures iv

List of tables v

List of appendices vii

List of abbreviations viii

SECTION 1. A THEMATIC AND STATISTICAL OVERVIEW 1

Chapter 1. An introduction to main themes 1

Chapter 2. The development of a historical fiscal dataset 50

Chapter 3. Fiscal trends and regimes 85

SECTION 2. THE RISE OF THE GENERAL PROPERTY TAX 115

Chapter 4. The colonial and early national background 117

Chapter 5. The antebellum general property tax 135

SECTION 3. THE FALL OF THE GENERAL PROPERTY TAX 198

Chapter 6. The general property tax crisis and the shift to corporate taxation 207

Chapter 7. Early twentieth-century income taxation 322

Chapter 8. Fiscal expansion during the 1920s: an overlooked tax regime 400

Chapter 9. Taxing the masses: sales and income taxation during the Great Depression 430

Appendices 574

Bibliography 751

List of figures

Figure 1. Percentage of the U.S. population covered by three state fiscal datasets: 1800-1900 635
Figure 2. Percentage of regional population covered by the merged dataset — North and South: 1800-1900 636
Figure 3. Total government revenue per capita: 1840-1995 637
Figure 4. Total government revenue per capita: 1840-1900 638
Figure 5. Total government revenue as a percentage of gross domestic product: 1840-1995 639
Figure 6. Fiscal centralization: federal revenue as a percentage of total government revenue, and state revenue as a percentage of state-local revenue: 1840-1997 640
Figure 7. State and local government revenue as a percentage of gross domestic product: 1800-1999 641
Figure 8. Intergovernmental revenue as a percentage of total revenue for state and local government: 1902-1999 642
Figure 9. Governments, by level: 1942-1992 643
Figure 10. Federal revenue, by source: 1791-1930 644
Figure 11. Federal revenue, by source: 1902-1995 645
Figure 12. Local revenue, by source: 1902-1995 646
Figure 13. Property taxes as a percentage of state revenue: 1800-1996 647
Figure 14. State tax reliance — taxes as a percentage of revenue: 1800-1900 648
Figure 15. State revenue, by source: 1902-1996 649
Figure 16. State tax revenue, by source: 1902-1996 650
Figure 17. Average state tax reliance: 1902-1999 651
Figure 18. Transportation and education as a percentage of state expenditures: 1800-1900 652
Figure 19. Total government non-defense expenditure, by function: 1902-1995 653
Figure 20. State expenditure, by function: 1902-1995 654
Figure 21. Local expenditure, by function: 1902-1995 655
Figure 22. State-local expenditure, by function: 1902-1995 656
Figure 23. Property taxes as a percentage of state revenue, by region: 1800-1937 657
Figure 24. Per capita state expenditures — South, Central, and West as a proportion of North: 1800-1922 658
Figure 25. Schematic model of fiscal change 659
Figure 26. Turnout in presidential elections: 1860-1996 661
Figure 27. Hypothetical example of a policy at 25-percent diffusion 662

List of tables

Table 1. Example records to illustrate integrated fiscal coding in the Sylla-Legler-Wallis dataset 664
Table 2. Example of a source table's header structure: 1902 665
Table 3. Example records to illustrate a fact table for fiscal data 666
Table 4. Typical fiscal classification for the modern COG era: 1950s to present 667
Table 5. Coding structure for the harmonized fiscal dataset 669
Table 6. Fiscal regimes along multiple dimensions: 1800-2000 672
Table 7. Personal property and slaves as a percentage of total property, by region: 1860 675
Table 8. Regional classifications, arranged by year of statehood 676
Table 9. Average general property tax reliance for state government, by region: 1890-1922 677
Table 10. Average state percentage of employment in manufacturing, by region: 1890-1922 678
Table 11. Correlations between general property tax reliance and government size: 1890-1927 679
Table 12. Valuation of real and personal property: 1850-1900 680
Table 13. Turnout in presidential elections — average for each two-decade period: 1860-1996 681
Table 14. Inheritance tax usage and reliance: 1902-1927 682
Table 15. Early income tax adopters: year of adoption and income tax usage in 1927 683
Table 16. Early income tax adopters — income and property tax reliance, by region: 1927 684
Table 17. New York state tax revenue, by source — COG and state-government data: 1927 685
Table 18. Size of state government, by income tax usage: 1927 686
Table 19. State government revenue as a percentage of gross domestic product: 1800-1990 687
Table 20. State and local highway revenue: 1914-1940 688
Table 21. State highway revenue, by source: 1914-1940 689
Table 22. Average state tax reliance: 1902-1997 690
Table 23. Pre-1940 adoptions of general sales and individual income taxes, categorized by relative order of adopting the two taxes 693
Table 24. General sales tax adoptions during the 1930s 694
Table 25. Income tax adoptions 697
Table 26. Year of adoption for enduring state taxes adopted during the twentieth century 699
Table 27. State tax reliance variables analyzed: 1902-1962 701
Table 28. Independent variables used in the tax reliance analysis: 1902-1962 702
Table 29. Tax reliance regression results: 1902-1962 704
Table 30. Tax reliance regression results — chronological: 1902-1962 711
Table 31. General sales and individual income tax adoptions before 1940, by region 714
Table 32. Average number of unified governments per state during the 1932-1938 period, by whether the state adopted a general sales tax 715
Table 33. General sales and individual income tax adoptions before 1940, by the number of unified governments during the 1932-1938 period 716
Table 34. Logistic regression results for general sales tax adoptions during the 1930s 717
Table 35. Sales tax reliance, by region and unified government control: 1937 718
Table 36. Sales tax reliance regression results — the role of unified government: 1937 719
Table 37. Frequency distribution of every combination of 4 initial adopters chosen from the hypothetical nation depicted in Figure 27 721
Table 38. Scoring methods used when testing the neighbor emulation theory 722
Table 39. Frequency distribution of average adopter scores for 1922 from Table 40 723
Table 40. Testing the neighbor-emulation theory: gasoline tax 724

Table 41. Testing the neighbor-emulation theory: individual income tax 725
Table 42. Testing the neighbor-emulation theory: corporate income tax 726
Table 43. Testing the neighbor-emulation theory: cigarette tax 727
Table 44. Testing the neighbor-emulation theory: general sales tax 728
Table 45. Testing the neighbor-emulation theory: lottery 729
Table 46. Hypothetical tax system: tax rates required if the lower half of the income distribution were exempted from all taxation 730
Table 47. Regional classifications 731
Table 48. Tax reliance — major categories for each state: 1902-1997 732

List of appendices

Appendix 1. An analysis of twentieth-century state tax reliance and tax adoptions 575
Appendix 2. Figures 634
Appendix 3. Tables 663
Appendix 4. Is the wide distribution of American tax burdens a mathematical imperative? 743
Appendix 5. The regional classification of the states 745
Appendix 6. The method used to estimate fiscal values for overall local government in 1913 748

List of abbreviations

The following abbreviations are used when referring to datasets. See the bibliography for additional details.

Dataset MH20.	Fiscal dataset created as part of this study (twentieth century).
Dataset SLWH19.	Fiscal dataset created as part of this study (nineteenth century).
Dataset SLW20.	Fiscal data from Sylla, Legler, and Wallis (twentieth century).
Dataset SLW19.	Fiscal data from Sylla, Legler, and Wallis (nineteenth century).
Dataset HOLT.	Fiscal data from Holt (nineteenth century).
Dataset COG.	Fiscal data from the Census of Governments (starting 1972).
Dataset HOFF.	State-level socio-economic and political data.
Dataset HSUS.	*Historical Statistics of the United States*, 2006.

Section 1.
A thematic and statistical overview

Chapter 1.
An introduction to main themes

This dissertation examines the history of fiscal politics and policy in the American states. Its primary thesis is hinted at in the title: to make sense of that history, one must place *wealth taxation* at the center of the analysis. Such a focus provides leverage on the key historical questions and helps to avoid several common misperceptions.

This study began with a particular question, evolved into a sprawling examination of dozens of topics, and ended up somewhere in the middle. The particular question emerged out of a small investigation of Michigan's adoption of a retail sales tax in 1933. The Great Depression was a period of tremendous fiscal change on the state and local levels. Like many other states, Michigan replaced its old fiscal system, based on the idea of a general property tax, with modern tax instruments — either income taxes or general sales taxes, the latter in Michigan's case. My research question seemed straightforward enough: when states made the switch from old property taxes to modern fiscal devices, why did some opt for income taxation and others for sales taxation? The choice between income and sales taxation appeared to offer a state-level analogue for the classic battles between the forces of progressivity and regressivity that Sidney Ratner had described on the federal level.[1] This question can be framed in a social-scientific vein by asking whether there are any socioeconomic or political

[1] Ratner 1942, p. 9 and 511-14. Also see W. Elliot Brownlee 1996, p. 3-36.

variables that correlate with state revenue structure: do the states that opted for income taxation differ systematically from states that opted for sales taxation? I intended to combine this type of quantitative analysis with comparative political histories of various states. Such an approach seemed promising in its ability to address weaknesses in the existing literature. Historical studies of fiscal politics tend to rest on a thin quantitative foundation, usually a constrained set of fiscal data consisting of little more than aggregate measures of the entire state-government sector. As a result, they engage in little to no formal statistical analysis. Meanwhile, quantitative studies of fiscal topics tend not to be historical: they often rely on modern data (since 1970) and are usually limited to article-length studies that are narrowly cross-sectional and quantitative in their orientation. My hope was that a quantitative historical analysis could reinforce — and be reinforced by — a comparative narrative of the key political and ideological events leading from the old general property tax to modern tax instruments.

Following this reasonable start, the project widened considerably and threatened to become, at least in the grand plans, a narrative and statistical analysis of the full scope of state and local fiscal history. However, practical limitations reined in such ambitions. The final product can be seen as consisting of multiple studies, some with a wide focus and others narrowing in on the questions that motivated the research. The wider studies encircle — or provide context for — the narrower ones.

At the widest level, the project includes two elements. The first involved the assembling of an integrated fiscal dataset suitable for historical research. This effort, which is described in Chapter 2, is one of the most important contributions of the dissertation. Even though all of these fiscal data were already "available" in one sense or another, a considerable distance separates raw data from the type of material required for analysis. The resulting fiscal dataset includes a cleaned and rationalized set of state fiscal data spanning the nineteenth and twentieth centuries, along with local fiscal data

for most of the twentieth century. In addition to collecting fiscal data as reported by underlying sources, I also developed a harmonized fiscal dataset that uses a consistent set of classifications, facilitating comparative analysis over time.

The second broad-gauged component of this dissertation builds on that dataset. Chapter 3 provides an overview of the major quantitative trends in American state and local fiscal activity from 1800 to 2000. That discussion is organized around four broad areas: the size of government, federalism (or the fiscal relationships among government levels), revenue structure, and expenditure structure. Revenue structure at the state level receives the greatest attention because it relates directly to the issue of tax choice that motivated the study and sits at its center. The overview of quantitative trends culminates in a tabular periodization of the major fiscal regimes in the history of the United States. Unlike efforts by other fiscal historians to identify fiscal regimes, my presentation does not coerce each historical period into a single regime with a handy label. Instead, the periodization is multi-dimensional, organized both by government level (federal, state, and local) and by the four broad areas just noted: government size, federalism, revenue structure, and expenditure structure.

Still operating at a fairly wide level, but narrowing somewhat, the dissertation provides a narrative synthesis of state fiscal activity and politics from the antebellum period through the 1930s. During that hundred-year period, state governments created a major fiscal regime based on the general property tax and then, over the course of several decades, replaced it with modern tax instruments. The broad historical arc of those transformations is encapsulated in the dissertation's title: the rise and fall of wealth taxation. The rise is covered in Section 2 and the fall in Section 3. Interwoven in that narrative is an effort to provide historiographic overview and criticism. Fiscal historiography, especially at sub-national levels, is an underdeveloped field, one that still suffers under an unhelpful influence inherited — in some cases directly and without skepticism — from fiscal experts writing during the late nineteenth and early twentieth

centuries (Progressive-era scholars very broadly defined). Those experts have exerted a powerful influence over fiscal historiography. Not only did they describe and document fiscal affairs during the transition from the old regime to the modern regime; they were the intellectual architects of reform and, in their roles serving on various blue-ribbon commissions, they played a part in engineering the transition. To get some leverage on the topic and to break out of some of the limitations of the existing historiography, this dissertation pays close attention not only to the quantitative record provided by the harmonized fiscal dataset, but also to the theme noted at the outset — namely, the centrality of wealth taxation.

Finally, at the center of the dissertation sits the crucial period from roughly the late 1870s through 1940, during which the transition to the new regime occurred. This period is covered in Section 3, where the narrative and the historiographic discussion started in Section 2 are continued, but in considerably greater depth. Supplementing this narrative is a quantitative analysis of state fiscal structure and tax choice during the first four decades of the twentieth century. That analysis is found in Appendix 1.

The story told in Section 3 culminates in the 1930s, a period when American state governments made a radical shift in their fiscal structures toward general sales taxation. Thus, the dissertation ends where my own journey with the topic began — with the Depression-era politics of general sales tax adoptions. The embrace of sales taxation by state governments during the interwar period represents a fitting conclusion for the interpretive arc of this study. Regressive retail sales taxes signaled the utter end of wealth taxation as an operative principle in state and local fiscal affairs — both in practice and ideologically.

Sketch of the rise and fall of wealth taxation

The terrain covered by this dissertation is complex and multi-faceted. To provide context for the narrative and to lay some groundwork for the observations offered in this introduction, it will be useful to provide a rough sketch of the rise and fall of American wealth taxation. This overview necessarily ignores not only the supporting details but also many subsidiary or connecting points required by the larger arguments offered in this study. A more fleshed-out overview of the dissertation's narrative and central arguments can be obtained by reading the introductions and conclusions of the individual chapters.

The general property tax would become the dominant revenue instrument for both state and local governments during the second half of the nineteenth century. This tax was different than earlier American and European variants of property taxation. It came to have several distinguishing characteristics, at least in terms of the ideal, which was satisfied to varying degrees across the states. Three characteristics were especially important: universality, uniformity, and ad valorem. *Universality* meant that all valuable assets were supposed to be taxed — not just real estate, for example, but other property as well, such as industrial equipment, financial assets, vehicles, livestock, expensive personal items, and so forth. *Uniformity* meant that the same tax rate was to be applied to all types of property wealth. And *ad valorem* specified the precise method of taxation — namely, according to the market value of the property. In ideal form, then, a general property tax regime was supposed to locate all significant property wealth within a jurisdiction, determine its market value, and then tax it at a uniform rate.

During the colonial and early-national periods, state and local taxation in America had been quite different. First, it was not thoroughly dominated by a single revenue instrument. Property taxation was significant, but the range of revenue instruments used by state and local governments was more diverse. In addition, property taxation itself was different. Rather than being uniform and ad valorem, it was usually imposed

in fixed amounts against specific items — so much per acre, per head, or per some other unit of physical measurement. Thus, it was not a general tax on property wealth; rather, it was a tax levied against enumerated goods, quite often with particularized rates or taxing methods.

The general property tax began to appear in partial form in some states during the first third of the nineteenth century, and it gained substantial momentum in the 1830s and 1840s. The tax emerged in a context where state governments were becoming more active in the field of internal improvements, with the most important projects being those that dealt with the creation or expansion of transportation and financial infrastructure (roads, canals, railways, and banks). Internal improvements were attractive projects for state governments because they promised a stream of nontax revenues (for example, canal tolls or the revenues and financial assets that accompanied the chartering of banks). This potential was regularly frustrated by practical difficulties inherent in internal improvement projects, which tended to distribute costs and benefits unevenly across the map and thus spawn sectional disagreements. The general property tax — and subcomponents of it, such as ad valorem land taxation — emerged out of political negotiations over such internal improvement projects. Within the fiscal environment of the antebellum period, where citizens were accustomed to very low state tax burdens, promoters typically needed to tie internal improvement projects to a revenue device that would distribute fiscal burdens for the project, however roughly, in accordance with the project's expected enhancement of property values. In addition, the acceptance of this sort of state government activism hinged on a project's offering reasonable prospects for a future stream of nontax revenue.

Internal improvement programs underwent strain as they expanded in scope and ambition, culminating in the financial crisis of the early 1840s, when many projects failed to realize expectations and several state governments struggled to meet

obligations incurred in connection with the projects. The crisis of the early 1840s marked a key turning point. Confidence in the type of entrepreneurial state activism necessary to achieve significant flows of nontax revenues was seriously eroded. A sea change occurred in the fiscal culture, a change closely associated with the expansion of the general property tax. State constitutions adopted and revised during the antebellum period formalized the emerging ad valorem fiscal regime, often including the hallmarks of the general property tax — uniformity and universality requirements. Such constitutions also imposed a variety of other restrictions on legislatures, on state indebtedness, and on the ability of state and local governments to engage in the entrepreneurial promotion of internal improvements.

The other context for the emergence of the general property tax was in the realm of electoral politics. The broad trend was toward increasing democratization. Economic qualifications for voting were eliminated, and nearly universal suffrage for adult white males was achieved. A variety of changes were made to the rules for legislative apportionment, often in a direction that reinforced such democratizing trends. Many state-level offices were converted to popularly elected posts. More capable party organizations emerged and became adept at mobilizing the expanded electorate. The net effect of such changes was a considerably higher rate of voter turnout. Within this political context, the usual concerns emerged about the fiscal ramifications of the new democracy. In particular, property owners worried how democratically elected legislatures would exercise their authority. Such questions were natural, especially in an environment where property was a major source of tax revenue. The general property tax — notably its requirements for uniformity and universality — ended up being a key component in the political negotiations over the interconnected matters of legislative apportionment and tax policy within an increasingly democratized polity.

The rise of the general property tax during the mid-nineteenth century provides the historical background for the dissertation's main area of focus — namely, the period

from roughly the late 1870s through the 1930s, during which three major changes occurred.

• The first was a movement away from the general property tax, which achieved its peak quantitative impact some time in the 1870s. During the last third of the nineteenth century, the tax came under increasingly organized and systematic criticism from various quarters. Through a variety of changes implemented at varying rates among different states, the general property tax lost its generality. Some types of property were moved into their own special realms of taxation, and other types of property were simply exempted. In the aggregate, the *general* property tax was behaving more like a *real estate* tax. By the 1920s, the general property tax had been abandoned completely by a few state governments and partially by others. During the economic crisis of the 1930s, the property tax system collapsed — economically, administratively, and politically. Within a handful of years, the property tax — including its underlying legacy of wealth taxation — effectively disappeared from American state governance and was replaced by mass taxation, primarily in the form of regressive sales taxes.

• The second transformation involved the movement away from the constrained, localized fisc of the late nineteenth century and toward the centralized, expansive fisc of the twentieth. The nineteenth-century fisc had been characterized by slow government growth. The state government sector, for example, barely kept pace with the broader expansion of the economy. To the extent that any government growth occurred, it was usually on the local level, primarily in cities and towns. The pattern in the twentieth century was the mirror image: not only did government begin to expand more rapidly than the economy, but growth tended to occur at more centralized levels — both state and federal.

• The third major transformation was in the practice of electoral politics. The democratizing and party-building trends of the antebellum period had been carried forward into the late nineteenth century, resulting in historically high levels of political mobilization and partisan attachment. Voters turned out in large numbers and tended to vote consistently for one party or another, often in races that were closely fought between the two major parties. Around the turn of the century, the political patterns changed considerably. A significant and durable drop in voter turnout occurred. Voters became less regular in their party attachments, and the rules and institutions of electoral politics were altered in ways that reinforced the trend away from strictly partisan voting behavior. The relationship between candidates and parties also loosened. Whereas nineteenth-century politicians had been strongly defined by their party affiliation, twentieth-century politicians exercised considerably more independence. They remained connected to party labels, but they began to be less dependent on parties for a variety of financial, organizational, and policy-making resources.

The main task of Section 3 — and essentially of this dissertation — is to make sense of the shift in state fiscal structure, away from a regime based mainly on the taxation of wealth holders, and to a regime dominated ultimately by mass taxation, most prominently regressive sales taxes. One of the key challenges is to connect that fiscal transformation to the other changes just noted: one concerning the fiscal expansiveness of government and the other in the realm of electoral politics.

The critique of the general property tax that emerged in the late nineteenth century and gained strength during the early twentieth century had several components. The tax was accused of failing to yield sufficient revenues for state and local governments facing a rising number of groups lobbying for the expansion or extension of various services — for example, in the areas of education, physical infrastructure, economic regulation, and

various social programs. In the eyes of critics, the general property tax had also failed in its promise of producing a fair distribution of fiscal burdens. This line of critique was particularly focused on the problem of taxing intangibles (financial assets), which were said to be more difficult for tax assessors to locate and assess than tangible assets like real estate. In addition, and working from a different direction, the handling of intangible assets under the existing regime was criticized on equity grounds: if the prevailing general property tax rates were applied in a straightforward manner to the nominal value of some intangible assets, the effective tax on the income streams of those assets would have been extremely high relative to other tax burdens of the era.

The critique of the general property tax was tied to a wider critique of partisan governance. Predominantly middle-class in their social position and outlook, fiscal reformers tended to view the political parties' dominance of electoral politics and the government apparatus with great disfavor. Although some of these criticisms might have stemmed from a social or cultural preference for a more rationalized, informed brand of civic engagement exercised by independent-minded citizens, the essence of the critique hinged on fiscal matters. Nineteenth-century political parties financed their operations in two ways. The first method involved the use of officeholder assessments. In essence, both elected and appointed officeholders were charged an extralegal income tax against their official salaries, and these revenues were used to fund the spectacular political campaigns that mobilized a highly partisan electorate to vote for the party's slate of candidates. Another significant stream of financial resources for political parties came from major economic interests, especially corporations that dominated the economies of particular states or localities. The middle-class critique of partisan governance focused on the ways in which the party system translated the interests of other groups into government spending. This critique took various forms. In some cases, parties were accused of profligacy: partisan-minded voters, many of whom did not directly bear general property tax burdens, voted for officials who then dispensed various types of government benefits and official job positions to their

loyalists. In other cases, partisan governance was criticized for its failure to implement projects that the business-minded middle classes viewed as vital for the economic development of a state or locality. And a third branch of criticism focused on the issue of political-business corruption, which involved the use of corporate wealth to influence policy and government spending in support of a narrow set of business interests.

In short, the prevailing fiscal-political system was criticized for spending money on the wrong things and for relying excessively on the real-estate component of the general property tax. The explanation for the tax's failures focused on two main areas. The first dealt with the problem of intangibles taxation, with most critics concluding that the general property tax was fundamentally ill-suited to the taxation of property other than real estate. The other set of explanations for the deficiencies of the general property tax focused on the difficulty of administering property taxes within the highly localized system of American governance. Such explanations noted the lack of local fiscal expertise, the dominance of the local tax apparatus by political parties, and the fundamental incentive problems produced by a system in which local officials were charged with administering a tax base shared by both local and state governments. The last problem was referred to as competitive undervaluation, whereby local officials were incentivized to undervalue properties within their jurisdiction to keep state tax burdens lower for their local residents.

One can group the fiscal reforms proposed by critics of the general property tax into two broad categories. One set of changes focused on improving the administration of the existing fiscal system: administrative professionalization; more effective assessment practices; centralization and state oversight; executive-centered fiscal decision making; and more formal budgeting processes.

The other set of changes involved more significant departures from the general property tax system. One such change was known as *classification*, which represented a return to

an older model of property taxation in which the fiscal system showed no qualms about treating different types of property differently. Rather than attempting to apply a general tax to all types of the property, the fiscal system would have the freedom to put different types of property in their own classifications and to handle their taxation accordingly. In addition to this core idea, classification also tended to include two specific ideas: one was that the fiscal system should focus most of its attention on tangible forms of property; the other was that the tax rates imposed on intangible property should be lowered. Taken at face value, the classification movement represented a pragmatic effort to widen the tax base, bringing more wealth to the tax rolls by using lower rates — specifically, rates less likely to drive the owners of intangible wealth to evade the property tax altogether.

Another significant branch of fiscal reform travelled under the label *separation of sources*. In the abstract, separation of sources meant a departure from the system in which state and local governments relied jointly on one tax base — general property wealth. Instead, different government levels would have independent tax bases. In practice, separation of sources was tightly linked to the deeper goal of abandoning the general property tax. Local governments would continue to rely on tangible property wealth (mostly real estate), and state governments would develop their own set of special property taxes. The state-level taxes on these special kinds of property would then entitle their owners to exemption from the local general property tax — a tax that, by virtue of such exemptions, would no longer be general.

The movement of state governments away from the general property tax was not achieved in a single step; rather, several transitional steps were taken, often in an overlapping manner and with considerable variation in the particulars across different states. Analytically, we can discuss the steps separately.

The first replacements for state general property taxes still fell under the rubric of property taxation. Referred to as special property taxes, they were usually applied to corporate property, especially that of public service corporations, for which an argument could be made that the corporations fell under the regulatory powers of state governments. Common examples included railroads, street railways, power companies, insurance firms, banks, express corporations, telephone companies, and telegraph companies. The development of such taxes is covered in Chapter 6.

The second type of replacement for state-level property taxation is covered in Chapter 7, which deals with early income taxation. In political motivation and framing, early income taxes had many similarities with the new corporate taxes. Early income taxes tended to derive a larger share of revenues from corporate income than from individual income. In addition, even individual income taxes were closely bound to the concerns of amending the general property tax regime. They were elite taxes, typically affecting no more than the top 5 to 10 percent of income earners. Moreover, their stated intention was firmly grounded in general property tax reform: specifically, they were framed as an alternative way to tap intangible assets that were slipping through the cracks of the general property tax system. Along such lines, early income taxes were like special property taxes in that their adoption involved not only the creation of a new tax but also the exemption of particular classes of property from the remaining local property tax (various types of corporate, financial, and personal property).

The movement of states away from the general property tax — and toward both special property taxes and elite income taxes — typically involved a political negotiation among three important groups: state governments, which would receive and administer the new taxes; the affected corporations targeted to pay the new taxes; and local governments, which often demanded revenue sharing arrangements to compensate for the exemption of property from local tax rolls.

The third type of transitional fiscal device that reduced the reliance of state governments on general property taxes is covered in Chapter 8. This fiscal shift, beginning in the 1920s, had a larger and more widespread impact than either special property taxes or elite income taxes. During that decade, states dramatically reoriented their fiscal structures. The former major areas of state spending — education, carceral institutions, and state hospitals — continued to be important and to grow; however, that growth was dwarfed by the resurgence of transportation spending, mostly on roads. A parallel shift occurred on the revenue side of the budget, involving the rapid growth of auto-related taxation — vehicle licenses, driver licenses, and especially motor fuel taxes. After many decades of relative fiscal stasis, the state government sector began to grow rapidly. From a long-term vantage point, the 1920s are striking: no prior decade had witnessed such a rapid expansion in the size of state government, and even in comparison to the rest of the twentieth century the decade was a period of rapid growth. Alongside this fiscal transformation, auto ownership diffused rapidly. The net effect of these changes in taxation and auto ownership was substantial. Before the 1920s, auto-related taxes were a tiny part of state budgets; they were framed within the property tax rubric (licenses as proxies for the taxation of the property value of vehicles); and their impact was confined to elite groups. By the end of the 1920s, auto-related taxes yielded a substantial share of most state budgets, and those revenues tapped a much wider percentage of the population.

An even more substantial fiscal shift would occur during the 1930s — one that built upon the trends of the 1920s. The economic collapse of the Great Depression led to a parallel collapse in the property tax system, with tax delinquency rates often reaching 25 percent or higher. Even for those state governments that had largely abandoned property taxation, the collapse of the property tax system was the central fiscal problem of the era. State governments experienced pressure from two directions: one was to lower their own taxes, especially those imposed on property; the other was to increase state aid to local governments to compensate for delinquent property taxes.

Within this crisis atmosphere, substantial fiscal transformations occurred. The 1929-1938 period witnessed the largest wave of major tax adoptions in the twentieth century. These tax adoptions included corporate income taxes, individual income taxes, and especially general sales taxes. Such tax adoptions were accompanied by a rapid and widespread shift in state tax reliance toward sales taxation. Because of that change, the 1930s represent the last chapter of the rise and fall of the state-level general property tax. Property taxation had been declining steadily since 1900, but during the 1930s state-level property taxation was effectively eliminated as a major category of interest. Nineteenth-century wealth taxation was gone, and its Progressive-era replacements (special property taxes and elite income taxes) were dwarfed by regressive consumption taxes (both general sales taxes, typically imposed on retail sales, and specific sales taxes on alcohol, cigarettes, and especially motor fuels). The 1930s also witnessed a superficially dramatic — but much less substantive — shift toward income taxation. Many income taxes were adopted (this was the dramatic part), and income tax reliance did increase moderately. However, by the end of the 1930s income taxation had spread widely but not deeply. The real fiscal legacy of the interwar period was the sales tax. The dominance of sales taxation would remain unchallenged until at least the 1970s, at which point income taxation would finally begin to challenge sales taxation for a co-leadership role in the state-level fisc.

Survey of themes and arguments

With that overview of the major fiscal transformations as context, the rest of this introduction provides a survey of the dissertation's primary findings, themes, arguments, and historiographic critiques.

Critique of traditional historiography on the origins of the general property tax

As noted, "Progressive era" scholarship — broadly defined to run from the 1880s to the early 1930s — occupies a critical position within fiscal historiography. Such scholars focused on the central fiscal-political problem of their era, namely a perceived crisis in the general property tax system. By their reckoning, the general property tax was an unsuitable revenue instrument for an urban, industrial society. Perhaps falling into an unquestioning functionalism, these scholars offered long-term historical generalizations built around a key contrast. On one hand was the simplicity of an agrarian political economy, with which the general property tax was said to be nicely functional. On the other hand was the complexity of their own modernizing world, for which the general property tax seemed thoroughly dysfunctional — administratively, politically, economically, and ethically. Of particular concern were corporate and financial forms of wealth, much of it intangible and not easily located for taxation. This historical vision of the general property tax as a revenue instrument for simple times, and thus its utter failure in a complex political economy, is pervasive. The view is a tempting one: from our own twenty-first-century perspective, the general property is indeed an old tax, so it seems natural to view the tax as product of simpler agrarian conditions.

That is one half of the traditional story of the general property tax. If that part of the story is based on an unquestioned economic functionalism, the other half might be said to represent an unexamined cultural functionalism. Under this line of thought, the general property tax's principles of uniformity and universality are said to reflect conceptions of equality and democracy that were emerging in Jacksonian America.

As detailed in Chapter 5, both halves of this traditional story are deeply flawed. American fiscal history is not well revealed by starting from vaguely functionalist premises about the supposed fit between the general property tax and a simple political economy of an agrarian past. In fact, the general property tax was closely associated with economic and political modernization, along with the kinds of conflicts that typically accompany such social transformations: commercialization and market

development; government activism and the controversies over it; revenue growth and fiscal sophistication; geographic conflict over the costs and benefits of major public projects; and battles over the distribution of tax burdens within the context of a new type of politics where sheer numbers mattered more than they had in the past.

A consideration of such political and economic complexities also undermines the other half of the traditional story, which invests too much significance in the vague language that traveled with the general property tax (uniformity, universality, and so forth) and thus concludes that the tax somehow represented a manifestation of egalitarian democracy. It is true that institutional and ideological changes were transforming electoral politics along more democratic, participatory, and partisan lines. In addition, there might be an abstract connection between universal fiscal principles and egalitarianism. But the various political and fiscal components — an expanded suffrage, a democratic style of politics, more equitable legislative apportionment methods, and universalist fiscal devices like the general property tax — were not all part of a single egalitarian spirit. Rather, the components collectively represented a bargain.

In some cases, the bargain involved negotiations over the use of state powers and fiscal resources in the development of transportation and financial infrastructures. In such negotiations, the general property tax was a revenue device that helped to achieve political consensus for projects that otherwise threatened to create insurmountable geographic divisions.

In other cases, the bargain focused on the tight linkage that partisans perceived between democratic political arrangements and fiscal outcomes. Economic and political elites were keenly worried about the fiscal consequences of democratization. Such concerns played out with particular force in the South. An important share of revenue in the southern states came from taxes on slaves — both poll taxes and especially taxes on the property value embodied in the slaves themselves. The South was the region where

the generalization of property taxation had the biggest potential for divisive fiscal impacts. Indeed, that is where the sharpest conflicts over the tax are found. As Robin Einhorn's work has documented, the first battles over a full-blown general property tax — with constitutional requirements for uniformity and universality — were waged and won in the South.[2] Debates over the tax were linked to another matter of vital importance: legislative apportionment, which affected the balance of power either between plantation and yeoman farming regions, or between urban and rural areas. This balance of power was particularly affected by the methods used to count slaves in a population-based apportionment. In political conflicts over such issues, uniformity requirements emerged as an assurance that no class of property — in particular, slave property — would be taxed unfairly by increasingly democratic political systems. Such concerns of slave-holders often aligned with those of urban property owners, who felt that southern fiscal systems discriminated against urban holdings. Furthermore, both of these groups were commercially oriented and tended to favor more active internal improvement policies.

Far from being a tax merely suited to the simpler conditions of an agrarian economy, the general property tax was a fiscal instrument that emerged in the context of complex political negotiations over fundamental matters within an increasingly commercialized economy and democratizing polity. Within such negotiations the tax served both as a counterweight against democratic fiscal excess and as a mechanism for fostering greater state commitments in support of transportation and financial infrastructure.

The malleability of general fiscal principles

The rise of the general property tax illustrates a general point that appears repeatedly in the history of state and local fiscal politics. Abstract fiscal principles are malleable indeed. The new democracy and the new egalitarianism of the antebellum period, for

[2] Einhorn 2001; Einhorn 2006.

example, should be viewed as providing a common political language used by various partisans, rather than a specific explanation for the rise of a new fiscal regime. Both proponents and opponents of the general property tax deployed this language flexibly and opportunistically as part of a common vocabulary of the era.

One striking example is found in some of the southern states discussed in Chapter 5, where victorious advocates of the general property tax quickly abandoned the principles they had formerly endorsed — ideas like uniformity and universality — and sought special tax treatment for their own types of property wealth. These early departures from the ideals of the general property tax were but a prelude for late nineteenth century, when various middle-class, reformist, expert, urban, industrial, and propertied groups — in some sense, the socioeconomic descendents of the commercially-oriented antebellum promoters of the general property tax — would launch a full-scale ideological assault on tax. Just when the tax's principles really started to matter — and perhaps not coincidentally when the tax started to bite into new forms of wealth — such groups would perceive the tax as supremely unfair and dysfunctional, would evade it on a massive scale, and ultimately would overturn its central (wealth-threatening) features of uniformity and universality.

Similar examples of the general theme are seen in the campaigns waged against property taxation during early twentieth century. Although these campaigns emphasized the sufferings of small owners, the leaders were typically not small owners and the movement's motivations were usually more complex than simply lessening tax burdens on ordinary property holders.

Grounding fiscal history in political economy

All-purpose, narrowly socioeconomic explanations are commonplace in the fiscal historiography. A persistent theme in this dissertation is that such arguments tend not

to be very helpful in making sense of the history of fiscal structure. In some cases, such arguments are demonstrably incorrect. More commonly, even when they emphasize important issues, they tend to camouflage crucial aspects of the story.

In the example just discussed, the general property tax is not well understood by noting its abstract connection with agrarian socioeconomic conditions; rather, the tax emerged within larger political conflicts and negotiations over public purposes and political institutions.

The narrowly socioeconomic explanation for the origins of the general property tax has usually been paired with similarly restricted arguments emphasizing the dysfunction of the general property tax under urban, industrial conditions. As we shall see in Chapters 6 and 7, the dysfunction of the general property tax has been exaggerated and misinterpreted. Although the tax never achieved its ideal of uniformly tapping all property wealth (in that sense, it was dysfunctional), it is not clear that the tax became more dysfunctional as the economy modernized during the late nineteenth and early twentieth centuries. In fact, states that moved away from the general property tax did not end up raising more revenue than states that remained saddled with the old, supposedly dysfunctional general property tax. Arguments focusing on narrowly economic or functional limitations of the general property tax tend to obscure or downplay the most important issues — namely, the tax's political liabilities. It was precisely those liabilities — and the threat of an increasingly *functional* general property tax administered by more centralized and professional tax apparatuses — that inspired the passage of many replacement taxes during the early twentieth century.

Fiscal histories emphasizing the narrowly economic limitations of the general property tax also tend to lapse into another strand of functional argumentation, under which changing fiscal structures are portrayed as straightforward responses to socioeconomic development. For example, as the economy became more industrialized and as the

corporate form of economic organization became more prevalent, one might think it only natural that governments would respond by taxing such resources. This sort of argument contains a germ of truth: major economic resources do tend to attract the fiscal interests of the state. But that simple insight does not take us very far when trying to explain the particular form that fiscal transformations took during the early twentieth century. For example, the movement of state fiscal systems toward increased reliance on special corporate taxes is not well-explained by industrialization or corporatization. The basic problem is that those socioeconomic changes would persist, but the early replacements for the general property tax would not. The corporate and elite orientation of the early general property tax replacements was short-lived. Within a couple of decades, state governments were headed toward a fiscal regime based not on the taxation of corporate wealth but on the taxation of both the incomes and especially the spending of the masses.

Yet another form of narrowly socioeconomic argument dominates fiscal historiography on the 1930s, when that shift to mass taxation occurred. In this case, the conventional story is that the economic and fiscal crisis compelled states to shift away from the property tax and toward the only viable alternative, the general sales tax. More details on this matter will be considered later in this introduction. For now, it suffices to say that this type of explanation confuses more than it clarifies. Focusing on the economic and fiscal emergency is of limited usefulness because it addresses the wrong issue — namely, the supposed inherent economic advantages of sales taxation. To say this is not to dismiss the importance of the economic crisis. Indeed, the depression helps to explain a lot. Major fiscal reorientations often occur during crises, both because the existing system breaks down and because the crisis atmosphere reduces political, ideological, and administrative resistance to change. In this light, the Great Depression does help to understand why so many substantial fiscal changes occurred during the 1930s, why the property tax was almost completely abandoned on the state level, why state government spending increased both generally and relative to local spending, and

why state governments adopted so many new tax instruments. However, the economic crisis does not provide very much leverage for understanding the specific new taxes that were chosen. The traditional account suggests that the general sales tax was the only economically viable alternative; however, the range of possible policy responses was not so constrained. State governments could have — and, in fact, did — respond to the Great Depression in a variety of ways.

A common theme in crisis-centered explanations for fiscal developments during the 1930s is the absence of political choice. However, the economic crisis provides only the first part of a more complete story. There was a large causal distance between the economic crisis and resulting fiscal policy. Sitting between those two ends of the story were many factors that could influence outcomes: the balance of power among political and economic groups; the existing fiscal system and institutional arrangements; differences in the composition of the legislature or state supreme court; existing constitutional or statutory requirements; and various events that can be described as purely idiosyncratic. One striking finding from the cases studies examined in Chapter 9 is the sheer diversity of outcomes and especially of paths taken to those outcomes. There was significant variation in the political, legislative, and other events leading to tax adoptions, along with additional variety in the precise form of the adopted taxes. With closely balanced political forces contending within various political systems, it was not unusual to observe socioeconomically similar states charting different fiscal paths as a result of particularities that tipped the political, legal, or institutional balance one way or the other and then set in motion a line of fiscal development that was difficult to alter or reverse. The historical record is also full of near misses, reversals, and substantial policy revisions following initial tax adoptions.

Finally, at an even more general level, one frequently encounters suggestions that the twentieth-century movement toward mass taxation was compelled by deeper economic considerations — in effect, mathematical imperatives. Under this line of argument, the

broadening of the taxpaying public was compelled by the sheer size of modern government. The older taxes, because they tapped only wealth holders or high-income households, rested on too narrow a base to support the scale of twentieth-century governance — at least not without confiscatory, and probably self-defeating, rates of taxation. Like many general-purpose economic arguments, this one contains a core of truth; however, this line of reasoning goes only so far, and the mathematical imperatives are weaker than one might suspect. If information on the American income distribution is combined with studies of overall tax incidence, it quickly becomes apparent that, very roughly, the lower half of the economic spectrum is almost irrelevant in terms of aggregate government revenue. The economic resources — whether they be income, consumer spending, or property ownership — at the shallow end of the pool are too scant to make an appreciable difference in the tax rates required at the deep end in order to maintain a given government size. As a mathematical exercise, it is quite easy, while maintaining current government revenue levels, to eliminate all taxes for a sizable portion of the population without having to resort to confiscatory taxation on the rest of the population. Appendix 4 provides such an exercise, using income and tax incidence data from 1980.

Whether it be the rise of the general property tax, the shift away from the general property tax to early transitional fiscal devices like corporate property taxes and elite income taxes, or, most radically, the shift of state fiscal structures during the Great Depression to mass sales taxation, the way to connect socioeconomic change to the evolving fiscal structure is not to revert to narrowly socioeconomic explanations but instead to situate tax politics and policy making within a multi-dimensional approach firmly grounded in *political economy*. A goal of this study is to put forth a narrative of fiscal developments within that kind of approach, which is outlined schematically and discussed in greater detail in the introduction to Section 3.

The political limitations and radical potential of the general property tax

Before turning to another major theme, one might give some thought to why the general property tax has been such a lightning rod. What explains its political liabilities? Some answers are readily forthcoming. For much of its history, the levy was devoid of fiscal illusion, the phrase given to situations in which taxpayers easily forget that they are paying taxes. A tariff levied when goods are imported rather than when voters purchase them, a utility tax buried in an electric bill, a retail sales tax added to a purchase price — such taxes, small amounts tucked into larger costs, are easy to ignore and thus rank high in fiscal illusion. During the modern period the property tax has achieved some powers of fiscal illusion. Most voters now experience the levy through the intermediary of a home mortgage escrow account, effectively folding the taxpaying experience into a consolidated monthly house payment that includes loan principle, interest, insurance, and property taxes. Before such practices were institutionalized (during the 1930s), the property tax imposed direct and obvious pain: once a year, or perhaps quarterly, the property owner would pay the tax bill. Not only was the tax highly visible, but it was lumpy: instead of the many pinpricks that citizens received from the nineteenth-century tariff, for example, the property tax payer suffered one big cut. The concentration of the tax in one or a few large payments could raise serious cash flow problems for households that, through bad fortune or bad planning, found themselves unprepared on tax day.

Other political liabilities of the property tax can be summarized with a concept borrowed from economics — namely, elasticity, which is a measure of the responsiveness of one variable to changes in another. Property taxes suffer from two types of inelasticity, both of them politically costly. From the perspective of individual taxpayers, the property tax burden is inelastic with respect to fluctuations in household income. Economic fortunes might change from year to year, or over the course of a person's life cycle, but the property tax bill keeps arriving with regularity, changing according to larger patterns in real estate values and assessment practices, irrespective

of the property owner's current income. This situation can generate both real hardship and exaggerated horror stories served up for reasons of political expediency — senior citizens forced from their lifelong homes, hard-pressed farmers driven into foreclosure, and so forth. The second form of property tax inelasticity can be seen from the perspective of the public sector, both the politicians and the administrators who depend on regular revenues. For the reason just noted, the property tax faces substantial political difficulties during economic downturns. The high rates of tax delinquency during the Great Depression provide the most vivid example of this phenomenon. Moreover, the property tax does not offer compensating rewards to the public sector during times of economic expansion. Although property taxes do rise as economic growth drives up property values, this process is not automatic; rather, it is mediated through the political and administrative processes of assessment and rate setting. By contrast, other taxes are more immediately responsive to increases in income or consumer spending. During good times, the responsive (income-elastic or spending-elastic) taxes offer rewards to the public sector that the property tax does not provide so readily.

If all of that were not enough, the property tax suffers from what might be the most fundamental political liability of all. At its essence, the nineteenth-century general property tax was a levy on *wealth*, which tends to be concentrated at the upper end of the social spectrum — even more than income, for example. Because the property tax particularly targets the upper ranges of the social scale, abstract reasoning suggests that the levy would generate at least periodic opposition from elites.

Meanwhile, the property tax appears to be equally capable of making enemies on the other side of the social spectrum. Even though aggregate wealth holding is highly concentrated, real estate ownership in the United States has been fairly widespread. For example, 46 percent of white household heads were homeowners in 1900.[3] For many

[3] Dataset HSUS, series Dc761.

working-class and lower-middle-class families, property ownership was a core strategy for economic security and advancement. The extra burden of a property tax bill loomed large to these households, which were already straining family labor resources and restricting consumption in order to acquire property. The fact that the bulk of the property tax — as a tax on wealth — was aimed at the upper end of the social spectrum was not much consolation for ordinary property owners; rather, their immediate struggle was to gather the resources to acquire a small piece of property in the first place, an effort directly hindered by the property tax. Moreover, the levy carried an additional threat to economic security, one unique among the major taxing instruments — namely, that of foreclosure. Tax delinquency during economic hard times represented a real danger for the economic plans of ordinary households. Reinforcing arguments by McDonald and others, Monkonnen writes that "for working-class and ethnic Americans, property acquisition has often been the major form of economic security and advancement, and when threatened, people are often mobilized more decisively along these lines than along any others." Furthermore, we know from mobility and voting studies that property ownership was linked to residential stability, which in turn was linked, via residency requirements, to electoral participation. Such observations hint at the socioeconomic underpinnings of the constrained fiscal environment of the late nineteenth century, a period during which the major parties competed with each other in a bidding war over promises to keep tax burdens low.[4]

The primacy of wealth as a political motivator emerges forcefully as a general lesson from the study of fiscal history. Although framed for an earlier time period and a different topic (the antebellum politics of slavery), observations from Gavin Wright are apt here:

> Contemporaries of the early nineteenth century viewed wealth holdings as fundamentally important because of the instrumental role of wealth in human relations. A family's wealth position could determine its

[4] Monkkonen 1995, p. 78. Also see McDonald 1986, p. 255; and McDonald 1990, p. 254-5.

> bargaining power, its ability to wait and examine competing alternatives, and its capacity to resist arbitrary actions by outsiders. Wealth represented the wherewithal in economic affairs, the power to take risks of likely profitability without risking destitution. This strategic importance of wealth was particularly critical in an era when such modern substitutes as credit markets, insurance, and collective-action groups were poorly developed. The social divisions of antebellum America were essentially wealth-holding categories — planters, small slaveowners, yeoman farmers, tenants, and landless wage earners. In a word, wealth was a basic defining characteristic of social class.

Wright's study of the antebellum cotton South makes a powerful general case for the special importance of wealth in the study of political economy. Whether the topic is slaves, farms, or homes, property values are affected by political decisions. This connection is immediately obvious in the case of property taxation, where the first step is for the political system to make an assessment of the property's value. But the point is deeper. Political decisions create a legal, regulatory, and physical infrastructure that can significantly affect the market value of property, even to the point of making it valueless — hence the crucial importance of wealth holdings in the shaping of political ideology and the formation of political coalitions. Furthermore, "because the value of durable assets like land and slaves reflects an expected stream of returns over a long period, this capital-values effect may have a political impact many times greater than an effect on current earnings." In other words, citizens are likely to be especially touchy about policy affecting wealth, more so than they would be about a technically-equivalent policy affecting income.[5]

The political liabilities of the property tax emerge more sharply in light of such considerations. In the lower and middle parts of the social spectrum, a wealth tax directly threatens one of the few viable strategies for economic security and advancement. Meanwhile, at the upper end, a wealth tax suffers from excessive progressivity. Regardless of what economists think about the ultimate incidence of

[5] Wright 1978, p. 37-38 and Chapter 5.

property taxation (and their answers have limited political relevance), the simple fact is that only wealth holders directly pay property tax bills.[6] Beyond that, a general property tax carries at least the potential for radical outcomes. During times when the political tide shifts in more populist directions, property taxation is a fiscal mechanism capable of focusing attention on haves and have-nots. Especially during a period of economic structural change, with new forms and unheralded concentrations of wealth emerging, a true tax on wealth — the abstract core of the nineteenth-century general property tax — could seem a dangerously progressive fiscal device, if enforced vigorously by a democratic political system.

Observations along such lines have already been noted in connection with the rise of the general property tax during the antebellum period. Similar concerns emerged during the early twentieth century. In addition to the usual worries on the part of elites about the potential excesses of fiscal democracy, two additional developments added urgency to the situation by increasing the potential impact of wealth taxation in a twentieth-century context: first, the sheer scale of government was enlarging; and second, the administrative capacities of government were improving. To put the last point more concretely, the types of administrative, organizational, and information-handling improvements that were pre-requisites for modern instruments like the income tax or the retail sales tax were equally relevant for the general property tax. As the mechanics of governance were transformed from the nineteenth century to the twentieth, so too was the potential efficacy — and thus the threat — of the general property tax.

The importance of the transitional tax instruments

A central argument of this study is that we cannot properly interpret the big transition — from wealth taxation to mass taxation — if we do not directly confront the

[6] For an introduction to the debate over property tax incidence, see Phares 1980, chapter 3; Metcalf 1994, p. 64-5.

transitional tax instruments that states used during the late nineteenth century and especially the early twentieth century: special property taxes or corporate taxes; elite income taxes; and motor fuel taxes.

A weakness of the existing fiscal historiography is a tendency to downplay such devices. Sometimes they are ignored altogether, rushing the story and effectively jumping directly from general property taxation to general sales and mass income taxation. Another variant of the same error is to interpret the transitional devices merely as imperfect precursors for modern instruments, rather than the way contemporaries probably viewed them — as replacements for something old. If we skip these transitional fiscal instruments, or if we treat them as mere warm-ups for modern taxes, we will misinterpret their political character and, just as important, not be able to connect the fiscal transformations directly to the simultaneous transformations in governance and electoral politics.

Special property taxes, for example, were an important instrument in allowing the state-level fisc to move out of the constraints of fiscal politics as practiced during the late nineteenth century. On one hand, the taxes could be packaged as incremental adjustments since they fit comfortably under the rubric of property taxation. Nonetheless, they represented significant deviations from the underlying principles of general property taxation — specifically in their reliance on both classification and separation of sources. The political success of these taxes depended considerably on two factors: they did not directly tax ordinary voters and, at the same time, they usually received support from the targeted corporate sectors, which viewed them as favorable alternatives relative to the general property tax. At least in the states that embraced this early shift away from general property taxation, these new tax instruments had the effect of reinforcing new patterns of fiscal politics.

Although special property taxes were not necessarily associated with revenue expansiveness, the transitional fiscal instruments that spread widely during the 1920s — auto-related taxes — were. These taxes had several political advantages that made them suitable devices for underwriting the early expansiveness of the state sector. Like special property taxes, they were not paid directly by most of the electorate, especially in the early 1920s when most of the motor fuel taxes were adopted. The taxes had additional advantages: they were easy to administer; they could be readily characterized as a user fee; they were largely hidden from view, since collection usually occurred at the wholesale level; and they were levied against a commodity that was undergoing general price declines, thus camouflaging the rising fuel tax rates. In addition, motor fuel tax revenues were typically dedicated explicitly to road building and maintenance, a spending area that was acceptable both to the business-minded, middle-class, affluent, and propertied groups that bore most of the direct state tax burdens and to agricultural economic interests that were increasingly oriented toward serving urban markets.

The shift begun during the 1920s in the form of motor fuel taxes then carried forward in a more substantial and durable way in the form of general sales taxes during the 1930s — a direct example of how one of the under-emphasized fiscal devices of the early twentieth century laid political, administrative, and ideological groundwork for the ultimate movement of the state fiscal sector to regressive sales taxation.

Similarly, understanding fiscal trends since World War II is considerably aided by close attention to the transitional tax instruments of the earlier era. For at least a half century (1920-1970), sales taxation would dominate the state-level fisc. This trend was established during the interwar period. Moreover, even outside the realm of sales taxation, fiscal developments during the interwar period provide insights for understanding subsequent developments. Postwar income taxes, for example, would lose their heavy corporate and elite orientation, eventually becoming mass taxes. In addition, unlike the federal income tax, state income taxes tended to lose their

progressive rate structures, becoming considerably flatter. Such developments make sense when viewed against the context of the interwar period, especially the underlying political campaign of that era, which was to spread the tax burden widely.

Connecting the fiscal and political transformations

By grounding the study of fiscal politics firmly in political economy and by closely attending to the details of the transitional fiscal instruments of the early twentieth century, this dissertation makes headway on one of its primary goals, which is to connect the fiscal developments of the period to the simultaneous transformations in the practice of electoral politics. Just as the general property tax rose in a context where major changes were occurring in electoral politics, so too did the general property tax's fall coincide with fundamental political transformations.

A central purpose of Chapter 6 is to make such connections. In particular, the conclusion of that chapter contains a schematic outline of the process through which the fiscal and political transformations occurred, each reinforcing the other. That outline is reiterated in the conclusion of Chapter 7, this time incorporating observations related to elite income taxation. Although the details of that argument need not be repeated here, the gist of the approach can be summarized.

As noted above, the initial context for the story was the restrained fiscal environment of the late nineteenth century, when politicians battled in a tightly competitive, highly mobilized environment, aggressively trying to win support from voters who were acutely sensitive to property tax burdens. The operations of parties were funded by officeholder assessments and various corporate contributions. Either way, office holding generated the revenue needed to finance campaigns that succeeded or failed based on their ability to achieve the mass mobilization of even the most marginally attached voters. In this environment, pre-election promises emphasized fiscal restraint.

Quite naturally, we take socioeconomic development as a key driver of the ensuing changes; however, we do not stop with vague formulations about how such development led to "demands" for government to do something in response to the problems of urbanization, industrialization, and so forth. Instead, we consider how socioeconomic changes worked to adjust the incentives and goals of various groups: ordinary voters, who were still sensitive to tax burdens but who also faced a new urban, industrial environment; old-guard party leaders, who experienced increasing strain on their organizations to win elections using the mass mobilization tactics of the nineteenth century; corporations and major economic sectors vying for influence, advantage, and predictability in a new economic environment; and variety of interest groups, opinion leaders, and political reformers who favored different fiscal and political policies, but were frustrated by the constraints of the existing party system.

Within the altered environment, a new kind of entrepreneurial politician emerged and began to experience electoral success. These politicians were entrepreneurial in two senses: they were less dependent on party organizations for support, and they began to break free of the usual methods of fiscal-political competition. Effectively, a set of socioeconomic, technological, and reinforcing political developments were allowing candidates, interest groups, and citizens to pursue political goals with less dependence on party organizations, because such organizations no longer held monopoly power over the kinds of resources needed to mobilize popular support. This new type of entrepreneurial politician occasionally campaigned on platforms of fiscal expansion — something rarely heard in the intensely partisan political environment of the late nineteenth century. These new political strategies did not necessarily emerge through an act of sheer inventiveness so much as an iterative search for viable alternatives within a changing environment that was making older strategies either less effective or too costly relative to their benefits. The various developments also tended be mutually reinforcing. For example, the growing influence of independent interest groups created

a political opportunity that entrepreneurial politicians could tap to bypass a traditional party organization's grip on power. The mobilization of such groups was then enhanced — and their attachment to the state apparatus was confirmed — through the political strategies of such entrepreneurial politicians.

Under both the old and new models, government revenue served as the glue holding the political system together. In the nineteenth century, parties competed to get votes of a highly mobilized and loyal electorate and thus to achieve political victories that led to office holding, which then generated funds for voter mobilization campaigns. In the twentieth century, the promise of government activity was used to forge coalitions of somewhat diverse (and even contradictory) interest groups: services for middle-class neighborhoods; wage and various social guarantees for workers; "good government" reforms for middle-class professionals; physical infrastructure for major economic sectors; and regulatory legislation that appealed to middle-class and working-class groups in addition to the regulated industries themselves.

The early twentieth century experienced an interesting combination of superficially contradictory developments. On one hand, the electorate became less mobilized in the aggregate as voter turnout declined. In addition, fiscal policy became more divorced from ordinary voters, in two senses. First, the new instruments like corporate property taxes and elite income taxes were borne directly by only a small share of the electorate. Second, fiscal politicking shifted out of the public campaigns and their promises to keep the overall tax rate low, and into the realm of administrative and legislative negotiations over complex and highly technical provisions of the new tax instruments.

At the same time, however, the period also witnessed the adoption of new institutional arrangements that seemingly invited more democratic participation — notably, the initiative and referendum. Moreover, these mechanisms of direct democracy were sometimes used successfully in fiscally expansive political strategies during the 1910s

and 1920s. Even though the electorate was less mobilized in the aggregate, government expansion sometimes relied on the political strategy of periodic voter approval. Some fiscal historians have suggested that the fiscal expansion, political demobilization, interest group politics, and direct democracy of the early twentieth century are all related to each other, perhaps in some causal sense. A slightly different way to think about such connections is to ask what general demobilization and the institutions of direct democracy have in common. Both signal the end of a political regime based on competition between the broad platforms of political parties in closely fought battles to garner support from even the most marginally attached — and presumably most tax-averse — voters. The old model seems likely to incline the system toward fiscal negativism, whereas interest group competition over more narrowly-framed issues (for example, an upcoming highway bond) seems more conducive to fiscal expansion, with each particular electoral event drawing the greatest interest from committed advocates and from those with some kind of organizational or economic attachment to the project under consideration.

Critique of the neo-traditional historiography on state income taxation

Chapter 7 builds upon and extends the narrative of Chapter 6 connecting the political and fiscal developments of the early twentieth century. It also contains an extended critique of the state of historiography on early income taxation.

The literature remains stuck in a highly traditional approach, one inherited from the Progressive-era fiscal experts and reformers. More correctly, one might say the literature has reverted to a traditional interpretation, since the historiographic problems are more serious in recent scholarship than in the best work from a generation ago.[7] The problems can be enumerated briefly: a blurring of the differences between early

[7] See Teaford 2002; Mehrotra 2003; Mehrotra 2008; and, to a less serious extent, Higgens-Evenson 1998; Higgens-Evenson 2003. For older scholarship, see Yearley 1970; W. Elliot Brownlee 1974; and W. Elliot Brownlee 1976.

and modern income taxation; an insufficient appreciation for income taxation's role as a replacement for the general property tax; an exaggerated portrait of the dysfunction of the general property tax; a reliance on all-purpose socioeconomic explanations for fiscal change; an assumed association, perhaps even causation, between income taxation and fiscal expansiveness; a tendency to view state income taxation through the federal lens; a flawed periodization that prematurely announces the arrival of an income-tax regime; a geographic blind spot for the South, which was the locus of roughly half of the early income tax adoptions; an exaggerated view of the progressiveness and populist character of state income taxation; an insufficient appreciation for the redistributive significance of replacing the general property tax; and finally, an unhelpfully framed debate over the most prominent case study, Wisconsin.

A few of those problems are worth exploring here. The first deals with the matter of periodization. Unfortunately, many important works of fiscal historiography stop too early — on the heels of the Progressive-era fiscal reforms, some time before or during the 1920s. This constricted timeframe has influenced the interpretation of twentieth-century fiscal historiography in an unhelpful way. By stopping the story early, one is left with a skewed perception of the direction of state fiscal developments, making it seem plausible for the trajectory to be in the direction of either the Progressive-era reforms or, more typically, the income tax. However, the Progressive reform package had largely exhausted itself during the 1920s and, as noted above, the advance of income taxation was a slow-moving process. In terms of actual usage, income taxation did not achieve a co-equal role with sales taxation until the last third of the century. The quantitative impact of early income taxation, while significant in particular states, was too meager in the aggregate to support the suggestion, however qualified, of a new fiscal regime based on the tax. If early twentieth-century income taxes belong to a fiscal regime, it is the special property tax regime — one in which some states made substantial departures from general property taxation, adopting a variety of levies intended to reach corporate and intangible wealth. Elite income taxation was one variant of that

broader set of developments. The only way to mistake this period for a budding income tax regime is by confusing federal and state fiscal developments. An accurate overview of state-level taxation during the first half of the twentieth century needs to assign more weight to the two fiscal regimes outlined above: one dominated by auto-related taxes starting in the 1920s, a shift that swamps the quantitative impact of early income taxation; and the other, which was even larger and more durable, dominated by general sales taxes starting in the 1930s.

In light of this historiographic critique, state income taxation might be characterized as *the progressive reform that should have been*: progressive governance should have been funded by a progressive, modern tax. The fact that income taxation did not, in fact, win the day during the interwar period thus serves as the "Why no socialism?" question in American fiscal historiography. Such questions were the at the forefront when this dissertation was in its early stages — specifically, why so many states choose regressive general sales taxes during the 1930s rather than progressive income taxes. I have since come to the view that there are more central questions. The key to understanding fiscal developments during the interwar period is not to focus on the choice that appears most obvious to modern eyes — namely, the choice between sales and income taxation, framed in Ratner's style as a battle between the forces of regressivity and progressivity. Rather, the way to get leverage on these topics is to focus on the bigger story in state-level fiscal history: the transformation from wealth taxation to mass taxation. Within that transition, general sales taxes and modern income taxes have much in common. Neither was especially progressive as practiced by the typical state government during the period following World War II: both imposed their direct burdens on a large swath of the population, using proportional or nearly proportional rate structures. In that sense, they differed fundamentally from a tax paid directly by only by the owners of wealth — an economic asset skewed more strongly toward the high end of the distribution than is the case for either income or consumer spending. When viewed in long-term historical context, income and sales taxation might be viewed as liberal and

conservative variants of establishment centrism and its brand of fiscal policy making that was amenable to the interests of the corporate, the propertied, and the merely affluent.[8]

Along such lines, another major problem with the historiography on the early income tax is an insufficient appreciation for the redistributive significance of replacing the general property tax. The contrast between an old tax and its replacement invariably leads to questions about the redistributive impact of a fiscal reform. Although the existing historiography on the income tax does recognize conflict among socioeconomic groups, it has a special blind spot for what is arguably one of the most significant redistributive aspects of the fiscal change — the shift away from wealth taxation. A corollary of this blind spot is a tendency to read both corporate property taxes and early income taxes as progressive or popular reforms. Although fiscal reformers of the period deployed a public rhetoric sympathetic to the burdens on small property owners and farmers, this fiscal language was commonplace, flexible, and not especially revealing. The movement away from intangibles taxation was driven in most of its details by affluent, business, and propertied groups, which were not enthusiastic about income taxation as such; rather, they were opposed to the kind of vigorously enforced, centrally administered general property tax that was threatening to become a possibility within the framework of twentieth-century governance. At least as implemented, the early fiscal replacements for the general property tax were not mass, radical, or agrarian fiscal reforms, and they owed little to popular movements. They were taxes for, and crafted by, experts, editorial boards, wealth holders, corporations, and businessmen — all groups that perceived a direct benefit in shifting away from wealth taxation.

The general property tax replacements as responses to political problems

[8] On the use of "centrism" as a key concept in explaining the rise of federal income taxation, see Stanley 1993.

Several of the themes discussed above can be woven together to form one of the key historical arguments of this study. If we avoid narrowly socioeconomic explanations, if we ground fiscal change firmly in political economy and evolving political strategy, and if we emphasize both the general-property-tax context and the importance of wealth taxation, we are able to see that the general property tax replacements — special property taxes and elite income taxes — were, above all else, intended to solve political problems.

In particular, the problem was not that the general property tax could not work under modern socioeconomic conditions; rather, *the problem was that it threatened to work too well*. To understand this argument, it helps to scrutinize the supposed failure of the general property tax to tap new forms of wealth — notably financial assets, or intangibles. The question that sometimes goes unasked is why state and local governments did not crack down on enforcement. This question was certainly asked by the traditional advocates of the general property tax — notably farmers, who had a long track record of favoring rigorous enforcement of intangibles taxation. Part of the answer is that strict enforcement was not really tried on a widespread basis; however, the more correct answer is two-fold. In some jurisdictions, beefed-up enforcement was implemented for a while, but usually with adverse political results, and in other places such attempts were rejected outright — for reasons closely tied to the same adverse politics of strict enforcement. The bottom line was that the groups that exerted the most influence over the course of fiscal policy making were opposed to the general property tax. Simply put, they favored other fiscal instruments over a rigorously enforced general property tax.

The central problem was a self-reinforcing dynamic that undermined the political prospects of the general property tax. To sketch this dynamic we can begin with the rising pressure to increase state government expenditures. This pressure for higher spending came from regular incremental or bureaucratic processes, under which

government departments lobbied for higher budgets. It also came from the growing activity of various interest groups that operated outside the usual government and party channels and that lobbied for better roads, schools, urban services, and so forth. Whenever general property tax burdens rose to satisfy such expenditure needs, a common response was evasion. Tax evasion occurred both at the individual level as wealth holders failed to report their property assets (notably intangibles) and at the system level through practices like competitive undervaluation. The resulting dynamic was self-reinforcing: evasion reduced the aggregate property tax base from its theoretical potential; to achieve a desired level of revenue, state and local governments then had to raise property tax rates; and these higher rates served to heighten the incentives for evasion. Officials charged with trying to maintain or, in some cases, increase government revenue could try to enforce the general property tax more effectively through various types of administrative reforms and efforts to crack down on the taxation of intangibles. The simpler and more common response was to tighten up on the taxation of real property. In combination, rising relative burdens on real estate, increased enforcement efforts on certain fronts, and continued evasion led to a crisis of legitimacy for the general property tax.

This dynamic played out vividly in the case of Wisconsin, an example that has both historical and historiographic importance. In his successful gubernatorial campaign of 1901, Robert M. La Follette had advanced a platform emphasizing the problem of corporate taxation, especially as it applied to railroads. Under his tenure, several fiscal reforms were implemented. In particular, a gross receipts tax on railroads (a type of special property tax) was eliminated and instead railroad assets were moved back under a system of taxation that operated more like a general property tax — effectively, a reversal of the broader trends that typically were moving state fiscal systems away from general property taxation. This fiscal reform in Wisconsin was subsequently broadened to include public utilities. In addition, several steps were taken to invigorate and centralize local assessment procedures under the supervision of the state tax

commission, especially regarding the taxation of credits (the intangible property of lenders, most notably mortgages). The base-broadening effect of such reforms was significant. For example, the assessed value of money and credits doubled in short order.

The effort to tighten up the enforcement of intangibles taxation quickly ran into political resistance. A centralized general property tax that effectively tapped intangible wealth greatly concerned various influential groups within the Republican coalition then controlling the state government — for example, banks, non-institutional lenders, real estate interests, public utilities, and railroads. The solution to this political problem was brokered by Nils Haugen, a Republican state tax commissioner. The initial steps that reunited the Republican Party's factions included an exemption of mortgages from the recently invigorated general property tax, a commitment to further legislative work concerning the ad valorem taxation of railroad property, and a bill initiating the constitutional amendment process to allow income taxation. The latter process ultimately led to the first state income tax that yielded substantial revenues. Furthermore, according to the judgment of nearly all fiscal experts from the period, the revenue success of the Wisconsin income tax hinged on its effective system of administration — exactly the sort of centralizing, rationalizing reforms that threatened to invigorate the general property tax.

Here we see the essential political bargain that was struck in Wisconsin and several other states during the early twentieth century. A new tax instrument — perhaps special property taxes levied on corporate and financial wealth or maybe an elite income tax levied against corporations and high-income households — was adopted in exchange for the exemption of significant classes of property from the general property tax's regime of uniform wealth taxation.

Before such bargains could be reached, acceptance was required from two parties that had a stake in the existing general property tax. The first party was noted above: local governments typically demanded and achieved some form of revenue sharing from state governments to compensate for revenues lost by the exemption of corporate, financial, and personal property from the general property tax. The other key player was the farming population, a group that collectively represented both voting clout and significant economic resources. Farmers had to be guided away from their historic attachment to intangibles taxation. Even though the political campaign against the general property tax frequently deployed rhetoric about the plight of ordinary taxpayers, farm groups understood that wealth was even more concentrated than income and thus that income taxation did not represent an especially progressive outcome when compared to the alternative of a vigorous general property tax. For agricultural interests, the first choice was not income taxation; rather, it was the general property tax. The historiographic debate over early income taxation tends to pit Brownlee's emphasis on economic sector conflict — under which rural interests in Wisconsin were able to outmaneuver a politically weak manufacturing sector — against Brownlee's critics, who downplay interest group politics and instead emphasize the genuineness of the fiscal reformers' motives. However, the debate misses the central dynamic. Although Brownlee is on the right track in emphasizing interest group politics, his emphasis on the rural tenor of the Wisconsin income tax misrepresents early income taxation as a progressive tax for the common man — in this case, a tax for farmers. The excessive agrarian focus obscures the other half of the income tax coin — namely, the exemption of intangibles from general property taxation. This was the part of the bargain that most animated the propertied, business-minded, corporate wings of fiscal Progressivism. Such groups may not have been enthusiastic about the prospect of elite income taxation, but they preferred it over the alternative — namely, an effectively administered general property tax.

During the early twentieth century, the new replacement taxes offered a means to achieve a political solution for the general property tax problem — a problem that was fundamentally political rather than narrowly economic or functional. Reform coalitions navigated this political challenge in various ways across the states, but the broad outlines were the same. Some mixture of special corporate taxes and elite income taxes was adopted in exchange for the exemption of intangibles from what was sure to become a more effective general property tax under the increasingly centralized, rationalized, and civil-service-oriented forms of state and local governance that had been emerging during the late nineteenth and early twentieth centuries.

The regressive foundation of state government growth

Despite their importance for understanding state fiscal history, the early replacements for the general property tax did not allow for as dramatic a break from the constraints of the nineteenth century fisc as the new taxes adopted in the 1920s and 1930s would. Indeed, even though special property taxes and elite income taxes emerged in response to the political problems of a general property tax regime under the revenue pressures of an industrializing and urbanizing economy, these taxes did not break open the fisc as decisively as might have been expected. In particular, movement of some state governments away from the general property was not statistically associated with more rapid rates of government growth. During this period, even though some state governments shifted decisively to the new replacement taxes, many others did not. In the latter states, heavy reliance on the old property tax continued alongside many of the administrative reforms that were enhancing the efficacy of various types of taxation — general property, special property, and elite income. On average, states that moved toward the new replacement taxes did not grow more rapidly than those that continued to rely on the general property tax.

Although the state government sector did begin to outpace the rate of economic growth during the 1910s, the truly expansive phase of growth typically associated with twentieth-century governance did not begin until the 1920s. In this light, the fiscal history of state-level governance does not support a tidy liberal fiscal narrative, under which governments adopted progressive tax instruments to support the growth of a public sector capable of addressing the challenges posed by modern socioeconomic development. To the contrary, the first widespread acceleration in government growth at the state level was fueled not by an old-style wealth tax or even by seemingly progressive corporate and elite income taxes; rather, it was funded by a very old kind of tax — an excise tax, in this case on motor fuels. Along similar lines, the rapid expansion of the state sector began with the building of a transportation infrastructure (roads suitable for automobiles), not with the creation of the welfare, social-justice, and regulatory programs typically envisioned when thinking of modern, progressive governance.

To put these points in a different way, the rapid growth of twentieth-century state governments was built on a regressive foundation. By the 1920s, fiscal politics had become indisputably more liberal in practice. Many interest groups were making competing claims on the fisc, and such claims were wedded to the political strategies of a new breed of entrepreneurial politician forging victories in a less mobilized and less regular electorate. Such fiscal claims and political strategies had an impact: both state and local tax burdens increased considerably during the 1920s. However, fiscal politics remained highly conservative in rhetoric. Appeals to budget balancing, tax cutting, and expenditure rollbacks were common in political campaigns of the decade. More broadly, the advocates of growth had not built a durable fiscal and ideological framework to support either more expansive or more progressive governance. Perhaps understandably, interest groups tended to have a narrow focus on advancing particular programmatic agendas. More general commitments to the ideals of a robust public

sector or, more particularly, to progressive taxation were not advanced with any great success.

The 1920s as an entering wedge

The 1920s witnessed not only the rapid expansion of auto-related taxation, but also the playing out of the Progressive-era fiscal reform package — separation of sources, property tax classification, replacements for intangibles taxation, and administrative centralization. During this decade, old problems persisted and new ones emerged. Some dealt with the issue of revenue capacity. On one hand, the usual concerns were raised about insufficient resources to meet the needs of modern governance. At the same time, the system was regularly criticized for its fiscal extravagance, particularly the pernicious effects of fiscal decision making using the instruments of direct democracy in an environment where major state taxes were not borne directly by a large share of the electorate. The illusory nature of separation of sources was also highlighted. State and local budgets and functions had become so intertwined that nominal separation of revenue sources had less practical effect than hoped. In particular, relief for local taxpayers did not materialize over any extended period, because localities simply consumed the slack as state governments vacated the field of property taxation. Furthermore, in those states that had shifted decisively away from general property taxation and toward special property taxes or elite income taxes, the new fiscal systems experienced a variety of balancing or equity problems. In some cases, classified property tax systems faced an implied mandate to balance burdens across the different sectors and types of property — between corporate and common property, and among different types of business property. Even though the general property tax's explicit commitment to uniformity had been abandoned, political pressure for an equalization of burdens remained strong.

The fiscal world that the Progressive reformers had created was ripe for disillusionment and reaction, particularly its combination of more expansive fiscal practices and still conservative fiscal rhetoric. In such an environment, a counter-movement was to be expected, as conservative critiques of government growth resonated for many voters and interest groups. A leading role in the counter-movement was played by the same corporations that, earlier in the century, had successfully lobbied to have some of their property assets shifted out of the general property tax and into special property taxes. State systems of corporate taxation had the effect of bringing the state's large corporate interests into closer day-to-day contact with state officials and politicians. Such connections meant that corporations were well placed during the interwar period to lead the wider fiscal discourse. Railroads, public utilities, and other corporations allied with taxpayer organizations, chambers of commerce, real estate groups, and property owners generally to form an anti-tax movement.

Although framed as concerns about ordinary taxpayers, such calls for retrenchment were wedded to a growing ideological movement favoring new forms of taxation — mass taxation rather than property taxation, corporate taxation, or elite income taxation. This linkage was consistent with prior developments. In particular, the bedrock of the Progressive fiscal reform package had been to replace the general property tax — that is, to move away from heavy reliance on wealth taxation. The groups so influential in architecting replacements for intangibles taxation ended up being dissatisfied with the outcome. It was, after all, a decidedly partial reform agenda. The replacement taxes were still tightly attached to the property tax rubric and were still elite in their orientation. Also, the fundamental political problem — namely, the fiscal extravagance that supposedly resulted when the electoral system translated the interests of a largely non-taxpaying voting population into government spending. The electoral mechanism had changed — for example, from an entrenched party system to the institutions of direct democracy — but the basic formulation of the critique had not.

The fiscal developments during the 1920s both highlighted this problem and pointed to a more radical solution. Before the 1920s, the major state taxes either were general property taxes or were the new corporate and income taxes designed as general property tax replacements and enacted alongside corresponding general property tax exemptions, notably for intangibles. The primary drivers of fiscal expansion during the 1920s were quite different: they had either limited historical connections to property taxation (vehicle license taxes) or no connections whatsoever (motor fuel taxes). Even more important, the auto-related taxes were based on consumer spending rather than wealth. As automobile consumption diffused rapidly so too did the incidence of state-level tax burdens. In this light, the fiscal transformations of the 1920s served as an entering wedge. State government embarked on a new growth trajectory, one that vividly highlighted the familiar concerns about democratic excess and fiscal extravagance in the minds of affluent, corporate, and propertied groups. However, the fiscal device used to finance this rapid growth pointed the way toward a more radical solution for such elite concerns: that solution was to end state dependence on wealth taxation and to widen the taxpaying public.

The rise of sales taxation as a political victory

Fiscal historiography on the 1930s often characterizes the wave of general sales tax adoptions as being driven directly by the economic crisis. Under the traditional formulation, after state and local budgets collapsed, state governments were left with no alternatives: the general sales tax was the only instrument capable of yielding sufficient revenues. In some accounts, general sales taxation is described as a reluctant choice imposed on the states by the exigencies of the Great Depression.[9] At this point in the discussion, this style of fiscal historiography should be familiar — namely, a loose analysis in which economic imperatives are said to rule out particular kinds of

[9] For a prominent and recent example, see Teaford 2002.

dysfunctional taxes. Such explanations virtually remove politics from the story and ignore the fiscal-political context of the period.

Simply put, sales taxes did not merely emerge out of an economic crisis; rather, the economic crisis provided a *political opportunity* to overturn the old system. Sales taxation had been promoted for most of the interwar period, on both the state and federal levels, by groups with successful track records of exerting influence over fiscal policy making. In this context, the widespread adoption of general sales taxes during the Great Depression represents not the reluctant yielding of state governments to irrepressible economic forces, but the successful culmination of a long-running political campaign to eliminate the general property tax and, more generally, to broaden the taxpaying public.

Sales taxation came to dominate state revenue systems in spite of its unpopularity. General sales taxation was probably not the popular choice as a replacement revenue device; most likely, income taxation and the old idea of a vigorous general property tax had greater resonance among ordinary voters. What we can say with greater certainty is that general sales taxes were rarely subjected to a popular vote, because state legislators knew the likely outcome. Indeed, the few times that general sales taxes were put before voters, the outcome was always rejection. More generally, adopting any major tax is a difficult political feat. State governments rarely get over the hurdle, but they are more likely to do so during times of evident crisis — hence the clustering of major tax adoptions during the 1930s. In addition, the odds were also increased considerably for general sales taxes under conditions of unified control of state government — that is, when the same political party controlled both the legislature and the governor's office. In more competitive political environments, these regressive taxes were almost always rejected by the political system. These statistical findings are summarized in Chapter 9 and detailed in Appendix 1.

An obvious question is why income taxation fared so poorly relative to sales taxation during the first half of twentieth century. Indeed, that was a motivating question in the initial framing of this study. Contrary to the assumptions of the narrowly economic explanation for the rise of general sales taxation, income taxes were not inherently unable to respond to the fiscal challenges of the interwar era or to the acute problems of the Great Depression. They could have provided sufficient revenue to meet expenditure needs and to reduce the heavy reliance on a property tax that was becoming too narrowly confined to realty. Such possibilities were reinforced by a political system that frequently voiced support for progressive fiscal ideals and expressed concerns for the fiscal difficulties of ordinary voters. However, the effectiveness of such pronouncements was severely constrained by the strict political and ideological limitations within which income taxation travelled during the interwar period.

The core political weakness of the income tax movement was that its advocates were motivated by various kinds of fiscal and economic relief rather than by progressive taxation as such. And the core ideological weakness was the cramped vision within which income taxation operated — namely, a fixation on the rich and the corporate, along with a corollary unwillingness to broaden the tax to include the merely affluent. An income tax capable of supporting a more expansive state cannot be confined to the rich. Taxing the rich is politically feasible because the group represents such a small share of the electorate. Several states had proven the viability of this option during the 1910s and 1920s. However, as revenue needs expand, an income tax must broaden its base to include the affluent, and this is where the political challenges of income taxation become more severe, because the upper-middle and merely affluent social groups command large quantities of the primary political resources: voting numbers, economic wherewithal, and organizational skill. Legislatures were willing to experiment with personal income taxes as applied to a narrow segment of population, but they were not willing to modify rate structures much beyond where they had stood in 1929 — roughly

the top 10 percent of the income distribution. As a result, income taxation lacked the revenue capacity to offer a viable remedy for the main fiscal problems of the era.

As state governments expanded rapidly during the 1920s and 1930s, they did not pursue the evolutionary approach of broadening the base of existing wealth, income, and business tax systems. Instead, they embarked on a different course altogether, shifting toward a heavy reliance on regressive sales taxes. In this context, the complete abandonment of wealth taxation attains greater resonance.

Chapter 2.
The development of a historical fiscal dataset

The purpose of this chapter is to describe the fiscal data collection effort that was undertaken as part of this study and that forms the basis for most of its quantitative analysis. More specifically, the chapter does the following:

- Provides an overview of the main sources for historical data on state and local fiscal activity in the United States.

- Describes the fiscal dataset developed during this study. In addition to providing conceptual and high-level technical documentation for the dataset, the discussion also notes weaknesses of other datasets and offers some general observations on the key issues that any fiscal data collection effort must confront.

- Summarizes the history of fiscal classification in the United States as it applies to twentieth-century state and local governments.

- Describes the approach taken by this study in developing a harmonized fiscal classification system. Here, too, the discussion both provides technical documentation for the dataset that I developed and touches on some of the general issues related to the topic of harmonizing fiscal data for historical analysis — particularly the challenge of striking a practical balance between the competing pressures of classification purity, agreement with the modern fiscal scheme, and fidelity to historical categories.

This chapter concludes by making the case that historical data collection projects should envision their primary mission as being the preservation and delivery of *original* data and metadata in convenient formats, even though a *harmonized* dataset might be the project's final product or biggest selling point. The argument might seem too obvious to mention, but in practice data harmonization projects often fail in that regard. One of the strengths of my dataset — and one of the primary differences between it and the other harmonized fiscal datasets currently available — is that the original materials are well preserved and can be conveniently used alongside the harmonized information.

Overview of fiscal data sources and availability

For all of the ink devoted to American political history, our empirical grasp of some of the most fundamental fiscal categories is decidedly limited. This is a problem. Survey some of the main characters in U.S. political history — Hamiltonians, Jeffersonians, Jacksonians, Republicans, Reconstructionists, Redeemers, Mugwumps, Progressives, New Deal Democrats, and neo-conservatives — and, if so inclined to look, one quickly finds that the differences between these political actors often hinge on fiscal details. Conflict over the polity implies conflict over the fisc, and one expects that the victors will leave tracks among the fiscal indicators. But obtaining a sufficient statistical base from which to glean historical insights is a difficult task.

In the case of the nineteenth century, our statistical understanding is crude indeed. We have some case studies that provide fiscal data for individual states and cities.[1] Also, at least two systematic data collection projects have been undertaken for nineteenth-century state and local government finance; however, the results from these efforts are

[1] The list could be lengthened by going farther back, particularly to the Progressive Era scholars who were quite attentive to fiscal and administrative aspects of the polity, but more recent work includes the following: Laichas 1994; Higgens-Evenson 1998; Monkkonen 1995; McDonald 1986; Roberts 1990; Bennett S. Stark 1982.

decidedly partial.[2] Although remedying this deficiency does not seem a hopeless endeavor, at least for now we lack anything approaching a comprehensive accounting for the nineteenth-century fisc, both at the state level and even more so for local government. These gaps in the record are especially frustrating because in the few places where detailed attention has been paid to the fiscal details, the results are promising, in some cases upsetting entire paradigms of nineteenth-century political historiography.[3]

Approaching the twentieth century, the picture improves considerably. Although earlier decennial censuses had collected some information on state and local governments, not until 1880 was a substantial report prepared on fiscal matters, and even this effort retained the older focus on government debt, assessed valuation, and tax levies — no doubt important matters in a state-local government sector dominated by the property tax, but still a far cry from a full accounting of government revenue and expenditure, on which very little information was provided.[4] The 1890 census was the first effort to provide such an accounting. Although it did not achieve complete coverage of local governments, the *Report on Wealth, Debt, and Taxation in the United States at the Eleventh Census* managed to provide a fairly balanced set of fiscal data: not just debt and assessed valuation, but also revenues and expenditures, broken down into major sources and purposes.[5]

The modern era of government finance data collection — and indeed perhaps of social scientific data gathering more broadly defined — began at the turn of the century. Having begun as a headcount for political apportionment purposes, the census was evolving into "a full-fledged instrument to monitor the overall state of American society." This shift was embodied in a tangible administrative form in 1902 with

[2] Holt 1977; Richard E. Sylla, Legler, and Wallis 1993; Richard E. Sylla, Legler, and Wallis 1995a.
[3] An important example is McDonald's work on San Francisco McDonald 1986.
[4] U. S. Bureau of the Census 1880.
[5] U. S. Bureau of the Census 1890.

legislation designating the Bureau of the Census as a permanent federal agency.[6] That year would also be the one for which we have the first comprehensive collection of government finance data: *Wealth, Debt, and Taxation*, published in 1907 but covering 1902-1903.[7] In addition to the fiscal topics covered in prior census reports — valuation of national wealth, public indebtedness, and assessed values — this report provides a fairly complete picture of state-local revenue and expenditure, the area of greatest concern for this study. This finance data is broken down into moderately detailed categories and presented at state-level aggregation for state, county, city, and other local governments. The report also contains painfully detailed state-by-state descriptions of the revenue systems of state and local governments. This "digest" — if it can be called that, totaling nearly 300 Census-sized pages — was written by Carl C. Plehn, a prominent academic working in the field of taxation and someone who would play a lead role in crafting one of the era's most radical fiscal transformations, that of California in 1910. In the publication of *Wealth, Debt, and Taxation*, then, one catches a hint of the connections — some to be explored later in this study — between an emerging social science, the institutionalization of data collection, an expanding sphere for experts in policy formulation, and a burst of academic interest in fiscal topics.

Things would get worse before they got better. Subsequent censuses of governments were conducted with varying thoroughness in 1913, 1922, 1932, and 1942, none of them matching the achievement of the 1902 census. In 1913, for example, coverage of local governments — always the hardest area, due to their number and diversity — was impaired by the omission of jurisdictions with less than 2500 population.[8] As a result, fiscal values for total local government in 1913 depend on estimations to fill in the missing pieces. The 1922 census was even more restricted: national wealth, assessed valuation, debt, and tax revenue were present, but expenditure and all non-tax forms of

[6] Anderson 1988.
[7] U. S. Bureau of the Census 1907.
[8] Municipalities with less that 2500 population were omitted, as were townships, school districts, and special districts, except for those that overlaid municipalities with 2500 or more residents (U. S. Bureau of the Census 1955, p. 2).

revenue were missing. The problem in 1932 was not partial coverage: there are no glaring omissions of particular government types, and the standard fiscal areas are present. The 1932 report does suffer somewhat, however, from limited fiscal detail: revenue and expenditures are broken down, but not into as many categories as one would like. Wartime shortages of both funding and staff hindered the census effort in 1942, a year for which the report suffered from a variety of problems: partial coverage of local government, limited detail in breakdowns (especially on the revenue side), and inconsistencies in fiscal classification (both internally and relative to both prior and subsequent censuses).

The 1950s mark a turning point for the census of governments. Legislation in 1950 called for an expansion of such activities, calling for a census to be conducted every five years (those ending in the digits 2 or 7). Ironically, funds were not appropriated for what should have been the first census, in 1952; as a result, the modern era for the census of governments (or COG) begins in 1957. From this point forward, data on state and local finance are quite good: the censuses have occurred at regular 5-year intervals;[9] they have achieved a high level of coverage of the typical problem area, local governments; the fiscal breakdowns tend to be much more detailed than in the past; the fiscal classification system has remained fairly consistent, facilitating historical comparisons; and the post-1970 data are available from COG in electronic form.

It should be noted that this summary of fiscal data availability focuses on the main COG years: 1902, 1913, 1922, 1932, 1942, 1957, and every five years thereafter. These are the years for which the Census Bureau has published its major compendiums of government finances, which have travelled under various titles. In addition to these major reports appearing every five or ten years, there are also annual publications providing fiscal data for particular levels of government: states, counties, cities, public school districts, and so forth. Some of these publication series span the better part of

[9] In fact, beginning in the late 1970s COG data is available on an annual basis, even though the major COG survey years remain those ending in 2 and 7.

the twentieth century. Unlike local government publications, which are sometimes selective in their coverage, the state-level annual publications consistently provide data for all of the states. For this study, the annual state publications have played an important role in filling in both chronological and categorical gaps in the major COG publications.[10]

The statistical record for the twentieth-century, then, has its share of good news. With some work — a fair bit of data entry, combining statistics from various sources, and some estimation here and there — it is possible to create a reasonable dataset on state-local finance for the first half of the century. Beginning in the 1950s, the task becomes progressively easier, culminating in our own period, for which a profusion of fiscal data can be readily downloaded from COG.

The bad news, at least for the fiscal historian, is that twentieth-century data availability is inversely correlated with the historical eras of greatest interest. The "action" in U.S. fiscal history is before World War II. As will be seen, the American fisc was transformed in significant ways during this period: new revenue instruments, new areas of expenditure focus, and new fiscal relationships among governments. Once the data start to become really good (around the 1957), the fiscal scene seems to settle in. That does not mean that nothing changes: many states adopted major new taxes during the 1960s, and the tax revolts of the 1970s and early 1980s provide plenty of excitement. But at least in terms of a grand, long-run view, the postwar period gives the impression of elaboration and extension rather than fundamental transformations. By contrast, the first half of the twentieth century is all about fundamental transformation: an older "nineteenth-century" fiscal pattern is replaced by the new "twentieth-century" pattern,

[10] For a helpful overview of the history of fiscal data collection by the Census Bureau, see U. S. Bureau of the Census 2000b, Chapter 2, as well as U. S. Bureau of the Census 1948; U. S. Bureau of the Census 1955. The annual state-level publications have gone under two main titles: "Financial Statistics of States" (1915-1943, with interruptions in 1920 and 1932-1936) and thereafter simply "State finances."

with the main fiscal indicators exhibiting radical shifts — all of which makes the shakiness of the early twentieth-century quantitative record particularly frustrating.

But that is the view from the half-empty side of the glass. In spite of the many limitations, it is possible to gain a sense of the quantitative contours of state and local government over the past two centuries — with reasonable confidence for the nineteenth century (provided that the indicators are kept at the broad level) and with increasing confidence over time for the twentieth century.

The data collection effort for this study

The assembling of an integrated fiscal dataset suitable for historical research is perhaps the most significant contribution of this study. Even though all of these fiscal data were already "available" in one sense or another, a large gulf separates raw data from the type of material that one needs for analysis. This gulf can be understood as a set of barriers. The most immediate barriers are practical. If data are not already available in electronic form, original source documents must be gathered, and both data and metadata (documentation) must be entered into a computer. Other barriers are technical. Even though a significant amount of the fiscal data and metadata collected for this study was available electronically, it had to be manipulated using a variety of technical tools to identify errors (there were many), to correct errors where possible, and to convert the information into consistent formats suitable for analysis. Finally, some of the barriers are conceptual. Fiscal data is structurally complex: every variable exists within a hierarchical classification system, and these systems of classification evolve over time. Part of the conceptual challenge is obvious: how to reorganize data collected under differing classifications into a single classification that strikes a reasonable balance between analytic convenience and fidelity to raw materials. The other part of the conceptual challenge is just as significant but perhaps underappreciated until one tries to do such a thing — namely, choosing an appropriate

set of techniques to keep track of the metadata that describes the fiscal classification scheme underlying each data source, and how these historical schemes relate to the integrated scheme that one develops for historical analysis.

Even though the final product of this study was a single fiscal database spanning two full centuries (1790-1999), the nature of the effort, the challenges encountered, and the resulting data series differ significantly between the nineteenth and twentieth centuries; therefore, it makes sense to break this discussion of the data collection into two parts.

Nineteenth century

As noted above, relative to our ambitions in trying to understand the policy and politics of nineteenth-century state and local governments, we have a shockingly weak empirical base concerning the most basic of governmental operations — raising revenue and spending it.

The inherent problems are daunting enough: thousands of jurisdictions, each keeping track of financial transactions with varying degrees of thoroughness, each using its own accounting rules and fiscal taxonomy, and each ultimately leaving the printed records of such transactions (if any exist) in various libraries and archives across the nation. Even if all of the records had been faithfully kept and preserved, and even if they could be assembled in one place, the task of compiling this diverse mass of information into a readily accessible dataset would be a significant undertaking.

For local government, it is unlikely that we will ever approximate such a goal. The records are probably too incomplete, too idiosyncratic, and too widely dispersed. For state government, however, the prospects are better. In recent decades, two efforts have achieved some degree of success in assembling state-level fiscal datasets. The first

was conducted by Charles Holt during the late 1960s, and the second was carried out more recently by the team of Richard Sylla, John Legler, and John Wallis (hereafter abbreviated SLW).[11] These two efforts have indirect personnel connections. For example, Holt collected most of his data while working as a research assistant for Lance Davis, who has published quantitative examinations of the nineteenth-century fisc with John Legler. In spite of these connections, however, the data collection efforts were independent: the SLW team did not begin from Holt's dataset; rather, their work started from scratch, going back to the state documents — typically reports by state treasurers, auditors, or comptrollers, which were available either in the Library of Congress or in state archives.[12]

Holt's data are provided in an appendix to a reprint of his 1970 dissertation. They have not been made available in an electronic form. Holt's dataset provides state-level revenues and expenditures at a moderate level of categorical detail. Because these data were available only in print, I confined my examination to just a few variables: total revenue, total expenditure, and property tax revenue. At least at this level of scrutiny, the dataset appears to be reasonably well behaved. Admittedly, many of the typical inconsistencies in fiscal data are not revealed until a more complete collection of variables is examined (for example, by checking categorical totals against the sum of their breakdowns).

The SLW data files were made available publicly in a 1993 release through the Inter-University Consortium for Political and Social Research (ICPSR). As a result, analysts have access to a wealth of statistical detail, without having to enter any figures by hand.

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[11] Holt 1977; Richard E. Sylla, Legler, and Wallis 1993; also see Richard E. Sylla, Legler, and Wallis 1995b. For additional sources of nineteenth-century fiscal data, see the following: Ely and Finley 1888, p. 452, which provides state revenue and expenditure, circa the late 1880s; Higgens-Evenson 1998 and Higgens-Evenson 2002, which present fiscal data for a selection of state governments during the 1870-1920 period; Holcombe and Lacombe 2001, which uses SLW data as the basis for more accurate estimates of local government expenditures; and Davis and Legler 1966, which provides estimates of per capita revenue and expenditure for all three levels of government, organized by region.

[12] Based on the SLW codebooks, as well as email correspondence with John Wallis (January 2003).

Although the SLW team collected some fiscal information for nineteenth-century local governments, my in-depth examination was limited to their state-level dataset. It provides roughly the same number of major fiscal categories as Holt's dataset, along with fairly detailed breakdowns for those states with good records.

In terms of coverage, the SLW dataset is generally superior to Holt's, which is notably weak for the antebellum period. In the late nineteenth-century, however, Holt's dataset includes some states missing from the SLW data. By combining these results (details on this effort are provided below), I was able to achieve a fairly high level of coverage, at least at the broad level of total revenue and expenditure. As shown in Figure 1, my merged Holt-SLW dataset covers 50 percent of the U.S. population at the start of the century, 80 percent by 1825, and nearly all of it for the last quarter of the century — with moderate fluctuations embedded in the long-term rising trend. The other variable in my merged dataset, property tax revenue, exhibits a slightly lower level of coverage: roughly a linear trend starting the century at 25 percent of the population and ending at 95 percent. Unlike the total revenue and expenditure variables, for which the merged coverage only moderately exceeds SLW coverage, the property tax variable was considerably improved by combining the datasets.

Embedded within these broad national trends is an additional point of considerable importance. For all three datasets, especially Holt's, a marked regional difference exists: the South is underrepresented. As shown in Figure 2, the regions outside the South exhibit excellent levels of coverage for total revenue and expenditure: typically 90 percent of the population from 1830 onward. A significant coverage deficiency opens up for the South beginning around 1825, and it lasts for more than a half century. For the property tax variable, this regional gap is more pronounced and less bounded chronologically.

The SLW data are available through ICPSR in the form of delimited text files. Every data value is presented on a separate line (or record). In addition to the fiscal value itself, each record contains keys to identify the value: state, year, and fiscal code. A few example records from the dataset are shown in Table 1.

The SLW coding scheme is hierarchical and, in that sense, resembles the Standard Industrial Classification (SIC) system. Specifically, 2-digit codes are used for major fiscal categories, and codes with more digits are used to represent finer breakdowns. The example given in Table 1 is for education expenditures (code 31), which is further subdivided into a generic education subcategory (code 310) and a category for spending on schools (code 311). The sum of a related set of 3-digit codes is supposed to equal the relevant 2-digit aggregation, as it does in the example here.

Harmonized coding schemes such as this are intended to facilitate historical data analysis: in place of the myriad idiosyncrasies found in the underlying sources, the scheme organizes the data in a consistent fashion that, at least at the 2-digit level, roughly parallels the classification system found in late twentieth-century Census of Governments (COG) sources. Holt's dataset takes a similar approach: first a set of modern categories are devised; then data values from historical sources are allotted to those categories.

In the ensuing discussion, the advisability of having the final product of a historical data collection effort consist only of a harmonized dataset will be questioned. However, even when taken on its own terms, the SLW dataset suffers from serious flaws. Indeed, the codebook emphasizes such problems, describing the 1993 release as "preliminary." Unfortunately, there have been no subsequent releases. Among the most common problems are the following:

• Incomplete data records, missing either the fiscal values or the data keys (state, year, and fiscal code).

• Repeated data lines: identical keys and values.

• Repeated keys: two lines with identical keys but different values.

• Strange fiscal codes: undocumented codes; erroneous codes (e.g., zero); and codes appearing in the wrong context (e.g., revenue codes in an expenditures data file).

• Values off by an order of magnitude (e.g., 100 or 1000).

• Obviously erroneous values.

• Summation discrepancies: total revenue or total expenditure failing to equal the relevant sum of 2-digit detail; or a 2-digit category failing to equal the sum of its 3-digit detail.

• No distinction between annual and biennial data.

A close examination of the dataset suggests that many of the problems relate not so much to the data values themselves (though there are problems in this area), but rather to whatever computer routines the SLW team used to transfer the information from a database format to the text files distributed by ICPSR. Apparently, many of the fiscal codes were truncated or otherwise mangled during this transfer. This type of glitch tends to cause cascading errors, throwing off the summations at multiple levels of detail, and creating various fiscal code errors (key repetition or strange codes).

For this study, I spent a considerable amount of time examining the SLW dataset and taking remedial steps to solve its problems. After some initial clean-up work (removing duplicate or partial data lines), the dataset contained roughly 130,000 fiscal values. Among these there were roughly 100 situations with repeated key combinations and roughly 400 situations in which total revenue or expenditure (codes 1 and 3, respectively) failed to equal the sum of the relevant 2-digit or 3-digit detail. Meanwhile, there were about 1,300 data lines with strange fiscal codes (undocumented, erroneous, or inappropriate for the context). In many instances it was possible to examine a set of cascading errors for a particular state-year, to determine what went awry, and to fix the problems simply by changing a fiscal code to its likely value. This approach allowed me to address virtually all of the problems related to summation and repeated keys. After that, I simply aggregated all of the values with strange fiscal codes under catch-all designations, which represent amounts of unknown classification. At this point, then, the dataset was internally consistent: details added up to totals, and every value was properly coded, even if some of those codes meant "unknown." I then tried to address some of the other problems listed above: converting obvious biennial data to annual values; fixing order-of-magnitude problems; and excluding values or entire state-years that seemed clearly erroneous. This effort was frequently aided by comparisons with either the Holt dataset, or with available COG data for 1890 and 1902.

With this spruced-up version of the SLW dataset, I was able to generate a variety of national or regional time series that behaved in a plausible manner: overall tax reliance; property tax reliance; or the share of expenditures devoted to education and transportation. Some of these time series are discussed in this study or depicted graphically.

Because I was especially interested in tracking the historical trajectory of property taxation — an area of apparent strength for Holt's dataset during the latter nineteenth century — I also created a dataset that merged the Holt and SLW data. As noted above,

the merged dataset is confined to three major variables: total revenue, total expenditure, and property tax revenue (both general and special). The merging procedure was straightforward: if values were available in both datasets, I averaged them; otherwise, I simply took the value that was available. Exceptions to the averaging procedure were made in cases when the Holt and SLW values differed considerably and if one value seemed clearly more reasonable than the other.

Whether using the cleaned version of the SLW data or the merged Holt-SLW data, I needed to address a basic problem if I wanted to obtain estimates for national or regional fiscal totals — specifically, the problem of partial coverage. I deployed a simple and relatively crude method to obtain such estimates. Given the deeper limitations of the data, fancier procedures probably would not yield many dividends. In a situation with partial coverage, we can speak of the *available* states and the *missing* states — that is, the states for which data is either available or missing. The rough assumption underlying the method is that these two groups of states have the same per capita fiscal values. From this assumption, algebraic manipulation yields the following equation (1) to estimate a regional or national fiscal total (fisc_{est}) based on an available fiscal value ($\text{fisc}_{\text{avail}}$), the population of states represented by the available fiscal data ($\text{pop}_{\text{avail}}$), and the population of all states (pop_{tot}). Essentially, the method involves scaling up the available fiscal amount according to the ratio between the two population figures.

(1) $$fisc_{est} = fisc_{avail} \frac{pop_{tot}}{pop_{avail}}$$

Estimates of U.S. or regional per capita measures can be obtained more directly, since the underlying assumption of the method is that per capita values for the available states and the missing states are the same.

(2) $$fiscPerCapita_{est} = \frac{fisc_{avail}}{pop_{avail}}$$

Finally, one can compute more refined estimates of the national fiscal totals by considering the regional variation in data availability. As noted above, the South is particularly underrepresented in these datasets. One first computes fisc_{est} for each region. The national estimate is then obtained by calculating an average of the various fisc_{est} values, weighted according to each region's share of total U.S. population. When these regionally-corrected national estimates are graphed alongside the regular national estimates, the differences are so slight on visual inspection as to be not worth the extra complication — with the exception of the Civil War period. Correcting for regional data gaps tends to increase the estimates for per capita state revenue and expenditure during the war, further enhancing the impression of the Civil War as an extreme fiscal event for state governments, a point that will be emphasized in the discussion below. In terms of the long-term trends, however, national estimates for per capita state revenue, expenditure, and property tax revenue are not significantly impacted by regional variation in data availability.

Due to the problems outlined in this discussion, such time series must be used cautiously, with a full awareness that they contain a healthy margin of error. For individual states that kept decent records, these datasets provide reasonably good information. For the broadest fiscal aggregates — total revenue or expenditure — the estimates for the nation and for regions outside the South are probably not too bad, especially during the latter half of the century when coverage improves. The certainty decreases as one moves into the South or into the volatile period of the Civil War, when many of the fiscal values exhibit wild behavior — some of which could be real, and some of which could be misleading. The uncertainty also increases as one examines the subcategories, such as property tax revenue or education expenditures. The breakdowns are plagued not only by the problems already noted, but also by the frequent and sometimes large catch-all categories in these datasets — miscellaneous, other, or unknown, a set of labels that is unfortunately apt in assessing our current

empirical basis for understanding the fiscal underpinnings of nineteenth-century politics and governance.

Twentieth century

For the nineteenth century I worked with a noisy and sparse dataset — sparse in the sense of incomplete geographic coverage and inconsistent categorical coverage — and attempted both to clean the data and to construct national and regional estimates in order to build historical data series for a few key variables. By contrast, my efforts in the twentieth century dealt mainly with the problems of compilation and harmonization.

The starting point for this effort was two electronic data sources, the first being a twentieth-century dataset from the SLW team. This dataset is just like the one described above for the nineteenth century: a hierarchical fiscal classification was devised and the historical categories were mapped into this harmonized coding scheme. The SLW dataset contains both state-level data and local-level data (the latter aggregated into statewide totals) for the years 1902, 1913, 1932, 1942, 1962, 1972, and 1982 — in other words, the years for which the Census Bureau issued major reports on the fiscal activity of both state and local government.[13]

Starting in the 1970s — specifically for 1972, 1977, and annually thereafter — detailed and harmonized fiscal data are provided directly by the Census Bureau through its Internet site. This was the other electronic source that served as a starting point for my data collection efforts.[14] These data series cover all states at both the state and local levels, and at a high level of fiscal detail. In fact, the data file used for this study is the summary file, in that local fiscal activity is aggregated into statewide totals. Researchers needing local fiscal information at a finer grain can obtain it from the COG internet site.

[13] Richard E. Sylla, Legler, and Wallis 1995a.
[14] U. S. Bureau of the Census 2000a.

Weaknesses of the SLW dataset

For the modern period starting in the 1970s, then, state and local fiscal data were easily available and already harmonized for use. However, the database developed by the SLW team had a fair number of problems that reduced its utility as a source for a historical survey of state fiscal activity.

Critical gaps in chronological coverage. The SLW team focused on the major COG reports that provided both state and local data. As noted previously, the most dramatic fiscal changes of the twentieth century occurred during the period of weakest coverage by the major COG reports: high quality reports were issued in 1902 and then beginning in 1962. In between these two points lies a fiscal revolution that is captured infrequently and quite imperfectly by the major COG reports of 1913, 1932, and 1942, each of which had significant drawbacks. While the major COG reports surveying all levels of government only sparsely cover the twentieth century's period of greatest fiscal innovation, state-level reports are available on a more frequent and detailed basis — annually starting in 1915, with interruptions only in 1920 and 1932-1936. The most significant part of my data collection effort, then, was to complement the SLW dataset with my own collection of data from the annual state reports. Specifically, I added the years 1917, 1922, 1927, 1937, 1947, 1952, and 1957.

Important categorical omissions. By focusing on the major state-local COG reports, the approach of the SLW team had the effect of letting the data availability of the rarest element (the local level) determine both chronological and categorical coverage. Unfortunately, the main state-local tables provided by COG collapse several key state-level fiscal categories into larger aggregations. Since the initial research questions that spawned this study dealt with the political choices between competing revenue instruments during the first few decades of the twentieth century, such categorical

omissions were particularly significant. Some of the key variables not included in the early COG reports are incomes taxes and breakdowns of the special property tax category. I addressed this problem in the same way — namely, by using the state-level reports to provide more detailed breakdowns of the larger aggregations delivered by the SLW dataset.

Fiscal values for overall local government unavailable in 1913. As noted above, the COG report for 1913 does not include data for incorporated places with less than 2500 population. It provides local data only for county governments and for incorporated places with populations of 2500 or more. To address this problem, I developed a procedure to create estimated values for overall local government by using comparable data from 1902. Details on this procedure are provided below.

Failure to preserve historical metadata. Because the SLW team viewed their mission as the delivery of a harmonized fiscal dataset, their documentation is heavily oriented toward the final product — the harmonized fiscal categories. Underlying the harmonized data, however, are the original COG tables. Fiscal tables consist of the text labels for the discrete fiscal categories presented in the table, along with a set of hierarchical relationships among the categories. Even though the documentation provided by the SLW codebook does make some effort to reproduce the original text labels for individual categories, it does not preserve the hierarchical relationships; rather, the discrete historical labels are always presented within the context of the harmonized coding scheme's hierarchy. As a result, a user of the SLW data cannot fully reconstruct the historical tables. If we take the SLW dataset on its own terms, this criticism is unfair because it imposes a broader mandate on their data collection effort — which leads to a larger point.

An overly narrow mission: the delivery of only a harmonized dataset. Creating harmonized data involves numerous judgment calls and tradeoffs, some of which are

inappropriate for the research questions of other users. Since the creation of harmonized data has as it main prerequisite the collection of the original (historical) data, failing to deliver this original data alongside the harmonized data seems to represent a missed opportunity.

Creating the fiscal dataset for this study

The path followed to create a fiscal dataset for this study was a long one, with several wrong turns and lessons learned the hard way. I can provide extensive details, including the software used during every stage of the work, to other researchers who request it. Here I will outline the main steps. The discussion focuses on the historical data, because the modern COG data files (beginning in 1972) were already highly detailed and ready for use.

1. Collected and tested the SLW data. I first converted the SLW data into a format that was convenient to analyze and subjected the data to a battery of error checks and internal-consistency tests. A few problems were uncovered, some of which were corrected by returning to the original COG sources; however, the twentieth-century dataset from the SLW team was generally clean and did not require much remediation.

2. Entered state-level data to improve categorical coverage. After deciding that I needed to supplement the SLW dataset in several ways, I effectively went to ground zero. I reorganized the SLW data into tab-delimited files that could be imported into a spreadsheet and then reconfigured into an orientation that mimicked the layout of the COG sources on which the SLW data were based. The purpose here was two-fold: (a) to create a human-readable, tabular version of the dataset that could be referenced easily during any subsequent trouble-shooting; and (b) to facilitate the supplemental data entry.

3. Entered state-level to improve chronological coverage. In addition to supplementing the categorical detail in the state portion of the years covered by the SLW dataset, I also collected detailed state-level data for several additional years: 1917, 1922, 1927, 1937, 1947, 1952, and 1957. At least for the state-level, the result was a dataset that maintains a fairly good level of categorical detail at five-year intervals throughout the twentieth century (except for 1907). For the same archival and troubleshooting reasons noted above, this data entry was also done in spreadsheets oriented to mimic the tabular layout of the original sources.

4. Retained original metadata throughout the process. While assembling the numerical data, I took care during each step of the process to ensure that the original metadata traveled alongside the original data. The most basic fiscal metadata are the labels that describe the hierarchical relationship among the fiscal categories. Typically these labels take visual form as a table header. For example, Table 2 presents the revenue side of the table structure for the 1902 data that I assembled. Such metadata was preserved in this tabular form in the text documentation for the dataset; it was also preserved within a formal database structure, parts of which are described below.

5. Rationalized the table structure for the original data. In addition to collecting such hierarchical data and metadata, I rationalized the header structure of the original data — specifically, by computing as many residual, other, or discrepancy categories as necessary in order to get the historical source tables to adhere to hierarchical additivity, that is, the requirement that detailed categories, whenever provided, should sum to totals. For example, as shown in Table 2, the state-level source provided total special property taxes and just one subcategory (inheritance taxes). Implied, but not directly provided in the source, is the residual "other special property taxes," which I computed. Along similar lines, whenever the sum of detailed sub-categories did not equal an overall category, I created a residual "discrepancy" category. The purpose of adding

these computed categories to the original tables was to lay the groundwork for the ensuing harmonization work.

6. Created estimates for overall local government in 1913. As noted in the discussion of the SLW dataset, the 1913 COG report did not contain fiscal information for overall local government. Instead, the report provided revenue and expenditure information for counties and for cities or towns with populations of at least 2500. Because the Census Bureau did not collect fiscal information for incorporated places with less than 2500 persons, it did not provide data for total local government. Fortunately, the 1913 report provided three breakdowns of the over-2500 places. One of these breakdowns (incorporated places with population from 2500 to 8000) provides the opportunity to create some plausible estimates for overall local government. Details of this estimating procedure are provided in Appendix 6. The underlying assumption of the method is that the following ratio remains constant from 1902 to 1913 — namely, between fiscal values for small local government (those with less than 8000 population) and fiscal values for overall local government.

7. Stored the fiscal data in a fact table. I then combined the fiscal data that I had assembled — for the nineteenth century, for the early and mid-twentieth century, and for the modern period beginning in 1972 — and stored it in what is known in the language of database design as a fact table. Such data structures are often used in data warehousing contexts and are well suited to situations using additive data — in other words, situations, like the one at hand, where the discrete data values are intended to be added together to form various aggregates and sub-aggregates during analysis. Viewed in isolation, a fact table seems so ordinary as to be hardly worthy of a special term. Superficially, it looks just the like SLW data files, in which each fiscal value is stored alongside several identifying keys. What gives the fact table structure its power, however, is its relationship to other tables within the larger database. In technical terms, this relationship is known as a star schema, because when displayed visually this

database model has the fact table at it center, with all of the supporting tables radiating out from that table in a star-like arrangement.[15]

One of the most important supplemental tables is the one used to store the metadata documenting not only the labels for individual fiscal categories but also the hierarchical relationships among them. The other supporting tables are various characteristics that can be linked to particular states during analysis. A few example rows from the fiscal fact table are displayed in Table 3. A few points about the fields within the fact table are worth noting. The first field (fc_tab) is a unique number assigned to each source table, where source table is understood in an abstract sense to mean the *original table structure implied by the relationships among the fiscal categories*. Neither "source" nor "table" can be taken literally here. For example, all of my 1902 data has a value of 2 for the fc_tab field. This does not necessarily mean that all of the data for 1902 came from the same original publication or from the same original table within a publication (it did not); rather, it means that all of the fiscal data that I assembled for 1902 can be arranged in a hierarchical relationship such that detailed categories sum up to relevant totals. Thus, even though the data came from more than one "table" or "source," the data values relate to each other in a coherent hierarchical fashion and thus can be viewed as belonging to a single structure or "fiscal table".

The discrete components of such a table are the fiscal categories (or variables). Within each fiscal table, every category is assigned a unique number (fc). In combination, these two fields (fc_tab and fc) define all of the categories in the fiscal dataset, and these two identifiers can be used to link the numerical data in the fact table to the historical metadata (the labels that describe the fiscal categories).

The next three fields in the fiscal fact table are straightforward: year, government level (state or local), and state. In combination, these fields effectively define data availability

[15] Riordan 2005; see Part II, "Dimensional Database Theory."

for any particular category. Note that there is not necessarily a one-to-one relationship between fiscal tables (fc_tab) and years: some fiscal tables are available only for one year; others cover multiple years. Again, the defining feature of a fiscal table is not the source or a table in a literal sense; rather, it is a common set of fiscal categories arranged in a hierarchically additive fashion.

8. Created a harmonized fiscal dataset. Once the historical data had been stored in this arrangement, the next task was to create a harmonized version of the data in which the differing fiscal categorizations found in the source materials were distilled into a common classification system suitable for historical analysis. Additional information on the harmonized coding scheme developed as part of this study are provided below. This harmonized fiscal data then represented yet another fiscal table (fc_tab) within the entire fact table structure.

9. Extracted the data into various formats for analysis as needed. Although a fact table is a plausible general-purpose structure for archiving a large body of fiscal data, it is not a convenient format for analysis, because the information is not organized in terms of a unit of analysis — in this case, with the data values for each state being placed on a single data record. The strategy I used was to maintain a primary data store as a fact table (both in flat file format and in a MySQL database) and then to extract subsets of information as needed for particular analytic purposes.

Introduction to American fiscal classification

Before discussing the harmonized classification scheme developed for this study, a few points should be provided on the more general subject of fiscal classification, which has its own dry but important history. Long-run fiscal studies face an inherent difficulty: as fiscal systems are transformed, the categories deemed important by data collectors change, confounding comparisons from one era to the next. Even if the coverage

standards of the 1902 census had been replicated in 1913, 1922, and so forth at regular intervals, fiscal historians would face some challenges in making use of the data for long-term generalizations. An introduction to fiscal classification, therefore, serves as another important disclaimer, in addition to fulfilling an even more direct purpose — namely, to provide both a definition of terms and a conceptual roadmap to make the discussion of trends in the next chapter more intelligible.

This is a story perhaps told best in reverse, by starting with the modern COG era. Since the early 1950s, a reasonably consistent system of fiscal classification has been in place. It organizes government activities into four broad categories: general government, utilities, liquor stores, and insurance trust systems.[16]

- *General government*. This sector is a catch-all, defined in negative fashion to include everything excluded by the others.

- *Utilities*. The utilities sector deals with four areas: water supply, gas supply, electric light and power, and public mass transit. Other quasi-utility or commercial-type activities fall under the general government sector (for example, sewage and sanitation, ports, toll roads, airports, housing projects, and lotteries).

- *Liquor stores*. Some state governments, or local governments within certain states, operate liquor store systems, the revenues and expenditures of which are grouped in their own classification.[17] Note that several liquor-related government activities — such as licensing, law enforcement, and collection of alcohol taxes — fall under the general government sector.

[16] The discussion of modern COG classification is based on U. S. Bureau of the Census 2000b, along with my own work with numerous COG publications.
[17] Seventeen state governments operated liquor store systems as of 2000.

• *Insurance trust*. This sector is the least intuitive and the one most likely to raise issues that call into question the logic of the classification system (issues to be touched upon later). As its name implies, insurance trust deals with government provision of social insurance through some type of a "trust" mechanism. In simple terms, there must be a dedicated revenue stream feeding into a separate accounting fund within the administering government, from which various benefits are delivered to members of the social insurance system. The sector can be broken down into two groups of programs: (a) *public employee retirement* systems, either contributory or noncontributory; and (b) *social insurance* systems that "must have a social purpose such as benefiting the disabled or disadvantaged, aiding individuals who cannot afford private insurance, providing future income, and the like."[18] Examples of social insurance programs would be unemployment insurance, workers' compensation, veterans' life insurance, railroad retirement, or, most prominent of all, the federal Social Security and Medicare program (more formally termed Old-Age, Survivors, Disability, and Hospital Insurance, or OASDHI).

During the last five decades, a typical COG presentation of government revenue or expenditure would begin with the major headings just outlined. The breakdowns within the utility, liquor store, and insurance trust sectors are straightforward and small in number. The rest of the presentation — by far the largest part — would be consumed by the breakdown of the general government sector. On the revenue side, this sector consists of four sub-categories: taxes, intergovernmental revenue, charges, and miscellaneous. Although the meaning of these revenue categories is relatively clear, some finer points are worth noting.

• *Taxes*. The first and usually largest revenue category seems obvious because of its familiarity, but the concept practically undermines itself within the first

[18] U. S. Bureau of the Census 2000b, section 11.1, "Definition of Social Insurance Trust System".

sentence of the COG definition: "Taxes are compulsory contributions exacted by a government for public purposes, other than for employee and employer assessments and contributions to finance retirement and social insurance trust systems and for special assessments to pay capital improvements." Effectively, a tax is defined by negation: it is revenue exacted by government, except for those revenues classified as non-taxes (for example, insurance trust revenues, even those collected via a "payroll tax," or quasi-property-tax assessments for street paving). This method of definition is made even more explicit in what COG calls the visibility test: "the tax levy must be visible to the taxpayer as being a tax and not buried under the guise of another revenue." For example, a tax legislated on utility services would count as utility revenue (a non-tax category), unless the tax were itemized separately from user charges on the utility bill.[19] One is tempted wonder whether fiscal illusion becomes fiscal definition, but the point here is not to be smart-alecky with COG classifications; rather, it is to emphasize that government accounting has a big effect on fiscal categorization. Depending on the research question, it sometimes makes sense to regroup fiscal data in ways that deviate from the customary organization.

• *Intergovernmental revenue*. When one government gives money to another government, the giver counts the amount as intergovernmental expenditure and the recipient counts it as intergovernmental revenue. Examples would include grants, shared taxes, contingent loans and advances, or reimbursement for services provided by other governments. Such transactions must be netted out whenever the revenues and expenditures from difference governments are aggregated.

• *Charges* (also called current charges or general charges). These are revenues received in direct exchange for services or products provided by government.

[19] U. S. Bureau of the Census 2000b, section 7.21, "Taxes (and the Visibility Test)".

Common examples are tuition payments; tolls or charges for the use of transportation infrastructure (highways, bridges, parking facilities, airports, or ports); park, recreation, and natural resource user fees; hospital charges; and revenue from sewerage and solid waste management systems (interestingly, not part of the utility category).

• *Miscellaneous*. Frequently grouped with the item above (as "charges and miscellaneous"), this residual category includes both the other and the obscure, along with some items of historical or recent interest, such as special assessments (an important tool in the building of America's local infrastructure) and lottery revenue (a quantitatively small revenue source for state governments, but one that has received a fair bit of research attention).

Because of the quantitative and political importance of the tax sub-category, its major breakdowns should be noted as well: they are property, sales and gross receipts, license, and income. Within the sales category one will find a major distinction between general sales taxes (levied against a broad class, such as all retail sales) and selective or specific sales taxes (levied against particular goods or services, such as alcoholic beverages, motor fuels, tobacco products, or motel occupancy). Beyond these four major types of taxes, one might also find information in COG reports on inheritance taxes (also known as death and gift taxes) and severance taxes (imposed on the extraction of natural resources such as oil, gas, or coal) — revenue sources that have been politically or quantitatively important in some states.

The foregoing summary of modern COG revenue classification is presented structurally in Table 4, in which a typical expenditure breakdown is also shown. COG reports organize expenditures in roughly the same way, beginning with the four major categories discussed above: general government, liquor store, utility, and insurance trust. Beyond that, the functional breakdowns are fairly intuitive: education, highways,

sanitation, corrections, public welfare, and so forth. In addition to providing expenditures by functional area, COG reports typically present expenditures in second manner — by "character and object," which is also shown in Table 4. When working with COG expenditure data, it is important to bear in mind the distinction between direct and intergovernmental spending, each of which can be broken down into various functional areas. Especially in older COG reports, functional expenditure detail tends to be provided for direct expenditure but not necessarily for intergovernmental expenditure; or if it is provided, the breakdown might not exactly parallel the direct spending breakdown. Care should be taken in this regard, especially for categories in which intergovernmental expenditure constitutes an important share of the total (for example, state education spending).

The modern COG classification shown in Table 4 represents, in some sense, the conceptual reference point, against which earlier classifications are compared. The twentieth century can be divided into three periods, during which the Census Bureau's approach to fiscal categorization was roughly consistent: 1902-1936, 1937-1951, and 1952 to the present.

For the earliest period, 1902-1936, one finds many revenue and expenditure classifications that fit readily into the modern system. Naturally, the reports tend to provide less detail, and as a result it is frequently not possible to trace narrow fiscal categories over the entire century. On the revenue side, one of the noteworthy distinctions of the early period is the organizational prominence of property taxation. Fittingly, the major state-local tax instrument, the general property tax, received its own classification. Meanwhile, some of the newer revenue instruments — various taxes on business, corporations, incomes, or inheritances — were organized under the rubric of "special property taxes." As will be seen, these classification decisions are illustrative of some of the most important fiscal themes of the period.

In the early Census reports, both for the 1902-1936 and 1937-1951 periods, one also notices a few other distinguishing features. In both periods there are various efforts made to distinguish between "general government" and government in its commercial, enterprise, or business-like activities. Such classifications are similar in spirit to the modern separation of liquor store and utility operations from general government. But the older concept of enterprise or commercial revenue would include items such as highway tolls, user fees, rents, interest income, revenue from commercial activity of state universities, and so forth — reminiscent of the non-tax or asset income that was so important, both quantitatively and politically, during parts of the nineteenth century, as will be discussed later. During the 1937-1951 period, such distinctions were formalized into three governmental sectors: general government, enterprises, and trust or sinking funds — again, hinting at the coming four-part classification system, though with certain differences.

On the expenditure side of the ledger, one of the noteworthy aspects of the earlier Census reports is the frequent mixing of the two modern COG methods for presenting expenditures: by function (education, highways, etc.) and by character and object (current operation, outlays, etc.), at times making it difficult to obtain a full accounting of spending for a particular functional area. This problem is further complicated by the differing treatment of intergovernmental expenditures over time: some Census reports provide functional breakdowns for direct expenditures only; some provide it for combined direct and intergovernmental expenditures; and only the modern reports (beginning in 1972) provide separate breakdowns for both direct and intergovernmental expenditures.

The harmonized fiscal classification developed for this study

The effort to created a harmonized fiscal dataset suitable for historical analysis contained two basic challenges. The first was to decide on a classification scheme that

was compact enough for convenient analysis of important categories but that did not do too much violence to the particularities of the historical categorizations. The second challenge was to develop a set of techniques and software to perform the harmonization.

When developing a harmonized coding scheme, various considerations tend to push the decision making in one direction or another. Here are a few of them:

• *Compactness*. The fewer levels in the hierarchy of classification, the smaller the codes, and thus the simpler the system is to work with during analysis.

• *One digit per level*. If every level within the hierarchical coding structure is represented by one digit in the code, the resulting structure is both more elegant and somewhat easier to handle in various types of computations.

• *Agreement with modern COG classifications*. To the extent that the logic of the hierarchical classification can be made to agree with modern conceptions about how to divide up government revenues and expenditures, the more readily it will accommodate the time period where the center of gravity for fiscal data lies (the period staring in 1972, when the volume of data is the greatest), and the more likely the classification will suit the needs of social scientific researchers who typically frame questions in light of modern classifications.

• *Preservation of important historical categories*. Some important historical fiscal categories do not fit neatly within a modern classification. For example, the taxes that would be grouped under the heading of "special property taxes" during the early part of the twentieth century would be scattered across various categories during the late twentieth century (property, corporate income, and business license taxes).

• *Strict adherence to hierarchical logic*. When a category from one period straddles more than one category from another period, the classification hierarchy is pushed in the direction of ever more general aggregations. For example, if faced with a category like "special property taxes" that straddles broad categories that are themselves too important to abandon, one solution is to create a more generic classification — in this case, "property, income, and license taxes" — and then break this classification down into as many components as needed to represent every permutation found in the historical tables. As an abstract exercise in logic, this approach is sustainable for quite some time; however, it drives the coding structure toward complexity. Taken to an extreme, it yields a harmonized classification scheme that is almost as cumbersome as the original data. Moreover, the benefits of this pure approach to hierarchical coding tend to disappear in actual research applications, which usually focus on major fiscal categories for the time period in which they are important. As a category fades in importance, so too does the need to maintain its pure identify in the fiscal classification scheme.

Although I experimented with several strategies, I ultimately settled on a four-level coding system (see Table 5) that does not fully satisfy any one of the general criteria mentioned above — in other words, it is a compromise. I started by identifying all of the fiscal categories that have importance in a historical study of this kind. When historically important groupings failed to fit easily within the modern COG system, I tended to steer away from both the purist approach and the modernist approach, opting instead to create special spots within the classification to accommodate the historical groupings.

In this regard, there are two noteworthy examples. The first has been mentioned already. I created a category called "Revenue — Property taxes — Special, selective, or corporate." From a modern perspective, this category is impure because it includes

taxes that arguably could be classified as some combination of property, business income, and business license taxes. However, from a practical point of view, the category is quite functional: it is appropriate and worthy of study from roughly 1890 to 1930; after that time, it becomes irrelevant as a distinct category. Similarly, researchers interested in the modern contrast between property and income taxation are not significantly hindered by the impurity of the category, because income taxation was such a minor feature of state and local taxation during the period in which the category is present in the data. To put this point differently, the modern distinction between property and income taxation on the state and local level is not a viable question for broad comparative research during the early part of the twentieth century, due to the concentration of income taxation in just a few states; and for those few states, the data tend to segregate income taxes into their own categories anyway.

The second example is found on the expenditure side of the ledger: "Expenditure — Charities, hospitals, and corrections, n.e.c." I created this category not so much because it was important for my own research, but because it spared the harmonized classification scheme from having to resort to the utterly generic "Public safety, public welfare, and health and sanitation." Down this path lies both purity and absurdity.

The larger point, however, is that the usefulness of my dataset for other researchers is not adversely impacted by such harmonization decisions, because the database contains both the harmonized and original (unharmonized) data. Researchers with different research questions can go directly to the full detail available in the historical classifications, or they can begin with my harmonized data series and used the detailed historical categories to adjust the harmonized categories to suit their purposes. In other words, the fiscal database that I created provides the convenience of a harmonized dataset without losing direct access to the underlying detail.

The actual process of harmonizing fiscal data can be viewed from two angles. Conceptually, the task involves the creation of a concordance or mapping between the original fiscal categories (the input) and the harmonized fiscal categories (the output). Computationally, the task involves the reading of these mapping instructions, the computation of the detailed harmonized fiscal values (this is done simply by adding up the values for any original fiscal categories being mapped to the harmonized category at hand), along with the computation of the all of the general harmonized fiscal values implied by hierarchical structure of the harmonized coding scheme. For example, my classification scheme uses 5 digits. During harmonization, the input categories are mapped to the full 5-digit codes. The harmonization software then uses these detailed 5-digit categories to compute all of the aggregations implied by the hierarchy of the coding structure (the values for the 4-digit codes, and so forth).

The 5-digit coding scheme that I developed contains four levels, with the second level using 2 digits, as shown in Table 5. In the first digit, note the use of category 9, which is the code to exclude input categories from the computation of integrated values. The most commonly excluded input categories are duplicative totals (code 901). In the harmonization process, only detailed categories are mapped to output categories. Input totals can be dropped, because during the preparation of the input data we have already created as many "not elsewhere classified," "residual," and "discrepancy" categories as needed to satisfy the requirement that the details always sum to equal the totals. Using this methodology, any duplicative totals in the input can be dropped (totals are duplicative whenever an input category is broken down into detail categories), and the harmonization software computes total categories (the 4-digit, 3-digit, and 1-digit aggregations) after the input-to-output mapping is performed. Without this rationalization of the input data, the software needed to perform aggregations is unduly complex and, more important, the resulting harmonized dataset will also fail to satisfy the hierarchical additivity requirement.

Conclusion: general lessons for data harmonization projects

My experience with creating this dataset — along with my work managing two large data collection and integration projects — suggest at least two general lessons.[20] The first is that in any data compilation effort perhaps the biggest danger, aside from outright failure, is the tendency to view the "final" products — often the items most touted in grant proposals — as the most fundamental contribution. The final products are typically harmonized or otherwise distilled by the research team in charge of the effort. Due to the inevitable shortcuts and missteps of any complicated project, the direct connection between the original data and the harmonized data are lost or weakened, leaving other researchers in a position of having to choose between (a) the harmonized data delivered by the research team, which often made decisions unsuited to the projects of other researchers, and (b) collecting or manipulating the data afresh. A more robust model for a historical data collection effort is to define as its primary task the preservation and delivery of the original data and, equally important, the supporting metadata.

And that hints at the second general lesson: data compilation projects tend to devote insufficient attention to the metadata side of their efforts. While not always easy, collecting and manipulating numerical information tends to be more straightforward once the goals of the project are known. Less easily defined are the information management strategies, the software, and the work processes needed to ensure that the project's metadata are not only preserved but made available in convenient formats to data users. In a fiscal data project this means, at a minimum, that every fiscal value would be directly tied to the precise verbiage used in the source table's title and layered heading structure. Such a dataset would allow users to reconstruct the source tables in all of their idiosyncratic detail.

[20] The first project was to create an updated edition of *Historical Statistics of the United States* (*Historical Statistics of the United States* 2006). The second project was IPUMS-International (Integrated Public Use Microdata Series — International), an effort to collect and harmonize international census data and to disseminate it through an Internet interface that allows researchers to create custom-made data extracts.

Only as a supplemental service would a fiscal data collection effort provide one or more suggested concordances between these historical variables and a harmonized classification scheme. In the dataset that I developed, the original and harmonized data are both accessible for analysis; moreover, the tools that I developed for harmonizing the data are quite flexible, allowing one to alter classification decisions and create alternative harmonization schemes without too much difficulty.

Chapter 3.
Fiscal trends and regimes

Using the fiscal dataset discussed in the previous chapter, and supplemented by a few other sources, this chapter provides an outline of the major quantitative trends in the fiscal history of the United States. Even though all levels of government are considered, state and local government are the areas of primary concern. The discussion is organized around four broad areas: the size of government, federalism (or the fiscal relationships among government levels), revenue structure, and expenditure structure. Setting the stage for the discussions to follow in subsequent chapters, revenue structure at the state level receives particular attention here.

This overview of trends culminates in a tabular periodization of the major fiscal regimes in the history of the United States. Unlike the efforts by other historians to identify fiscal regimes, the periodization offered at the end of this chapter does not attempt to boil each historical period down to a single regime with a handy label; rather, the periodization is multi-dimensional, organized both by government level (federal, state, and local) and by the four broad areas just noted (government size, federalism, revenue structure, and expenditure structure).

A disclaimer should be registered before proceeding. The ensuing discussion should be taken in general terms, always bearing in mind the data limitations outlined in the previous chapter, especially for the nineteenth century. The purpose here is to present the broad contours, not to provide detailed information on precise levels or year-to-year fluctuations.

Size of government

In any quantitative sketch of government, perhaps the broadest indicators are those gauging overall size. How much of the average citizen's resources are tapped by government revenue collectors? Or to put the same question in aggregate terms, how large is the government sector relative to the overall economy?

A per capita measure is perhaps the simplest indicator of government size, since it corresponds in an intuitive way to an average tax burden. Figures 3 and 4 present a long-term view of total government revenue in per capita terms.

Before turning to the trends themselves, one should note that some type of "control" has to be imposed on the data in order to distill the trends of interest out of broader growth factors. A graph of raw fiscal values over time, for example, escalates rapidly, due to population growth, economic growth, and rises in the overall price level. But these other growth factors are usually not the main point of a fiscal investigation. Figures 3 and 4 use two types of controls. The first is obvious: government revenue is expressed in per capita terms, effectively controlling for population growth. The second is to convert the raw (or nominal) dollar values into constant (or real) dollar values using some sort of price index. The idea behind this second conversion is to adjust for changes in the price level (inflation of deflation). Such adjustments are not a huge concern for the nineteenth-century, which exhibited almost no long-term inflationary or deflationary trend, but they are absolutely necessary for the twentieth century, during which the purchasing power of a dollar changed considerably. The conversion from nominal to real dollar values is a rough effort to express these values in terms of a common monetary metric.[1]

[1] For an introduction to this topic, see the essay on prices and price indexes by Christopher Hanes in Dataset HSUS.

The two centuries of fiscal history summarized in Figure 3 boil down to a rather simple distinction: a pattern of slow government growth during a "long nineteenth century" versus a pattern of rapid government growth during the twentieth century. A finer periodization might emphasize a transitional phase, roughly 1890-1930, during which the rate of government growth increases somewhat, but remains well below the rapid pace that begins around 1930.

Within the nineteenth century, which is highlighted in Figure 4, a few obvious points emerge. The first is the impact of the Civil War, a huge fiscal event for all levels of government. The second is harder to spot in this graph but will become more evident in the ensuing discussion — namely, a period of fiscal restraint during the decades following the Civil War. The size of government did not return to pre-war levels, so the initial impression is that a kind of ratchet dynamic might be at work, during which a crisis leads not merely to a spike in the size of government, but the creation of a higher baseline from which new growth will occur.[2] But just as remarkable as the ratchet dynamic is the flatness of the curve from 1870 to 1890. Many explanations for government growth place heavy emphasis on economic change, and rightly so. Economic growth, industrialization, and urbanization — all of these things are, at least in a broad sense, associated with the kind of long-term fiscal transformation hinted at in Figure 3. Fiscal stasis during the 1870-1890 period — a time of rapid economic change — is therefore somewhat unexpected. Certainly, growth picks up again during the last fifteen years of the century, but in the context of the two centuries displayed in Figure 3, such increases seem very much within the "nineteenth-century" slow-growth pattern. In other words, the late-century acceleration represents a return to typical nineteenth-century trends more than a precursor of the modern growth pattern.

Turning attention back to the two-century graph in Figure 3, the shape of the curve suggests that the per capita measure, while helpful in certain respects, is not the ideal

[2] See Higgs 1987 for an exposition of this idea.

gauge of government size. One suspects that the rapid growth in per capita government revenue is in large part due to the quickening pace of economic growth during the twentieth century. This suggests a different presentation of the long-term trends: instead of controlling for population growth and price fluctuations by presenting government revenue in per capita terms and adjusting the dollar values with a consumer price index, one can instead control for economic growth by expressing government revenue relative to the size of the economy (gross domestic product, or GDP). This represents a different way of capturing a typical tax burden. In this case, the burden is expressed relative to an average income level: what share of the income pie goes toward supporting government?

Figure 5 displays such a measure: total government revenue as a percentage of GDP. Roughly speaking, the impression is the same as that from Figure 3: slow-growth during the nineteenth-century versus rapid growth in the twentieth. One can also see the dominant wars in each century; indeed, this presentation highlights the huge fiscal impact of the Civil War and World War II more effectively than the per-capita graph. Also more striking in Figure 5 is the period of fiscal restraint in the decades following the Civil War. As best we can tell with the crude data on hand, the American fisc was more or less static relative to the size of the economy between the Civil War and World War I. To twentieth-century observers accustomed to the notion of ever-growing government, such fiscal restraint is rather unexpected. It occurred during a period of rapid economic growth, industrialization, and urbanization. Nonetheless, these transformations did not summon anything more than a proportionate expansion in the scale of government. Proportionate expansion is not what narrowly socioeconomic theories of fiscal change predict. The idea behind such theories is not merely that government grows along with the economy, but that certain kinds of change (urbanization, industrialization, market integration) inspire a transformative shift — government growth at an even faster rate, since the new economy requires a new kind of state, not merely a state that keeps pace with population or income.

These observations concerning the puzzle that the late nineteenth century poses for strict socioeconomic theories of fiscal change are not new. McDonald's study of fiscal politics in San Francisco during this period arrives at similar conclusions. Even as San Francisco's economy was being remade, its fisc — constrained by powerful ideological and political limits — was anything but expansive. In resisting the socioeconomic logic for fiscal expansion, the "political system ... stubbornly refused to do its historic duty." The nationwide trend depicted in Figure 5 appears to support the case study findings of McDonald for San Francisco, Laichas for California, and Einhorn for Chicago. Although the timing no doubt varied considerably from one locale to another, in aggregate terms the decades after the Civil War, possibly stretching right up to World War I, were ones of noteworthy fiscal restraint.[3]

The noteworthiness goes beyond the refutation of an assumed lock-step causation between the economy and the fisc. Equally interesting is how the trend is at odds with the received wisdom coming from a generation of fiscal experts and reformers, who emphasized the profligacy of the earlier era — hardly the restraint implied by Figure 5. At least in some respects, the fiscal, political, and administrative reformers of the late nineteenth and early twentieth centuries were not doing very good history. This represents more than a minor historiographic note. In the long sweep of American fiscal studies, the experts from this generation have played an influential role in defining the terrain. During this period there was a flowering of research on fiscal and related administrative matters. A considerable volume of research was produced during the first three decades of the twentieth-century on state and local finance. During the 1940s and 1950s, however, these topics faded in importance, both in history as a discipline and in the field of state politics. In the latter area, for example, greater attention was paid to efforts to promote economic development than to fiscal history proper.[4] As a result, through the 1960s — during which some of the first systematic efforts to collect

[3] McDonald 1986, p. 239; Laichas 1999; Einhorn 1991.
[4] Richard Sylla 1986, p. 820.

nineteenth-century state and local fiscal data were initiated — the historical view of the nineteenth-century fisc was, in many ways, received directly from the experts and reformers who were so influential during the early twentieth century. This was history written by the participants, perhaps even the victors. Although fiscal historiography remains a small area, we now have a fair body of fiscal research done over the last couple of decades that paints a picture different than the received wisdom — not entirely different, of course, but different in important respects. These themes will be developed more fully in subsequent chapters.

Federalism

In a federal system — especially in the United States, which is known for its proliferation of governments — the matter of size can be approached from a different angle. How large are the three main government levels (federal, state, and local) relative to each other?

This is the question of fiscal centralization, which Figure 6 depicts along two dimensions: first, the share of all government activity located at the federal level; and second, the share of total state-local government activity located at the state level. Yet again, one observes the immense fiscal impact of the Civil War and World War II, both of which had significant centralizing effects. Most strikingly, near the end of World War II three-fourths of all government revenue was raised at the federal level.

One can also discern something analogous to the previous long-term graphs, which tended to divide into what can be loosely called a nineteenth-century pattern and a twentieth-century pattern. Also, the decades following the Civil War are rather unexpected for the twentieth-century observer accustomed not only to government growth (as discussed above), but also to fiscal centralization, in which the locus of government resources and power seems to shift ever higher within the federal

structure. The late nineteenth-century pattern goes in the other direction. Although the federal share of total government revenue fluctuates a fair amount, the long-term trend is roughly steady at about 30 to 40 percent of total revenue (after the immediate falloff from the Civil War). On the state-local level, however, there is a pronounced trend toward fiscal localization, in which state government goes from being just under half of the state-local sector during the antebellum period to being barely one-sixth of the sector at the turn of the century. Not only does local government become relatively more important, but the county share of local government drops from roughly 40 percent in 1820 to less than 20 percent in 1870.[5] In other words, the nineteenth-century trend was for fiscal activity to shift to the most local of local governments — in essence, fiscal urbanization. Within the local level, this trend toward fiscal urbanization was no doubt driven by demographic shifts: for example, the percentage of the population classified by the Census as urban was 20 percent in 1860 and 40 percent in 1900.[6]

Again, the crudeness of the nineteenth-century data should be stressed. The local component of the seemingly smooth time series depicted in these figures is nothing more than interpolation between very rough decennial estimates of the overall size of local government — estimates based on a fair bit of data gathering for a sampling of locales, but by no means achieving the degree of coverage found, for example, in the 1902 Census of Governments. Nonetheless, we know that the values at the turn of the century are reasonably accurate. As far as the long-term trend is concerned, then, the only question is how far afield the estimates are for the antebellum period. Even if they understate the size of local government, the trend toward fiscal localization is so pronounced that one suspects that if would remain even if we had solid data for the local sector. Moreover, there is reason to suspect that these antebellum numbers

[5] Holcombe and Lacombe 2001.
[6] Based on Dataset HSUS, series Aa31.

actually *overstate* the size of local government, since they are derived primarily from larger cities.[7]

Keeping the American federal structure in mind, one can return to the question of government size, this time focusing on the state-local sector, as shown in Figure 7, which presents state and local revenue as a share of gross domestic product. This graph repeats some trends noted already, but with a few differences. For example, the impact of the Great Depression and World War II are readily apparent. Another theme — fiscal centralization — is also reiterated, as state government overtakes local government some time during the early 1940s. This role reversal, however, was not merely a product of the major fiscal transformations accompanying the Great Depression; rather, the trend toward centralization at the state-local level began as early as the 1910s, something seen in both Figures 6 and 7. Finally, the period of fiscal restraint during late nineteenth-century is also visible; however, the separation of the state and local sectors in Figure 7 is instructive. For state government the period of fiscal stasis is extremely long-lasting: roughly 70 years during which state government merely kept pace with the growing economy. Meanwhile, fiscal restraint for local government can be observed in Figure 7 only if one is predisposed to go hunting for it — a narrow stretch of no more than two decades following the Civil War.

Another fiscal indicator that falls under the heading of federalism is the intergovernmental flow of fiscal resources, an increasingly important phenomenon during the twentieth century, as shown in Figure 8. Although the existing data cannot confirm it, the impression from both the early twentieth-century data and from various case studies is that the three government levels (federal, state, and local) were more fiscally independent during the nineteenth century. Beginning slowly in the 1920s and

[7] Speculation on the likely magnitude and direction of the bias for the antebellum data is based on e-mail conversations with John Wallis and Richard Sylla, January 2003. Sylla, for example, ventured the guess that the state share of state-local government ranged between 35 and 55 percent during the antebellum period, most likely toward the high side (55 percent) around 1840 and the low side (35 percent) approaching the Civil War.

accelerating rapidly during the 1930s, fiscal federalism changed substantially. By the end of the century, over one-third of local revenue and over one-fifth of state revenue would come from other government levels. These revenue connections observe the chain of command within the federal structure: the vast majority of intergovernmental revenue comes from the level immediately above. Varying over the course of the twentieth century, anywhere from 75 to 95 percent of local intergovernmental revenue has come from the state level, and nearly all state intergovernmental revenue comes from the federal government. For local governments this outcome has been somewhat ironic: during a century in which they achieved a greater degree of legal independence (under the notion of home rule), they lost a significant portion of their fiscal independence.[8]

Finally, still another way to approach the topic of federalism and fiscal centralization is simply to count governments. Such a tally is displayed in Figure 9, which illustrates a couple of points. The first is the shockingly large number of governments on the American scene: over 200,000 at the beginning of the twentieth century, most of them school districts, which equates to a governing body with some form of fiscal authority for every 14 square miles of land area.[9] The high degree of governmental localization provides a vivid sense of the difficulty of rendering a full fiscal accounting for the local sector during the nineteenth century. The second point from Figure 9 is that the twentieth century has experienced a radical form of jurisdictional centralization in the field of education.

Revenue structure

[8] See, for example, Monkkonen 1995, p. 108 and 115-6.
[9] Based on Dataset HSUS, series Cf3.

After examining the magnitude of government revenue, as well as some of its intergovernmental flows, the obvious next step is to consider the composition of government revenue.

Although not a focus of this study, the revenue structure of the federal government provides some useful background. As shown in Figure 10, for its first seven decades the federal government was supported almost entirely by customs revenue, punctuated by occasional bursts from other sources, particularly public land sales. In terms of the COG revenue classifications discussed above, customs (or tariff) revenue is a form of specific sales taxation, in this case levied against commodities imported into the United States. Nineteenth-century tariffs were imposed on a wide variety of goods, on the basis of either quantity or value — for example, alcoholic beverages, molasses, salt, tobacco, tea, hemp, and many types of manufactured goods. Beginning with the Civil War and continuing for another half century, the federal government was funded more or less equally by customs revenue and "internal revenue" — a category named as the conceptual opposite of customs revenue. Internal revenue included such items as the Civil War income tax and, more durably, a variety of taxes levied on particular commodities, notably alcoholic beverages and tobacco. In large measure, then, the nineteenth-century federal government was based on specific sales taxes, some of imposed on imports and others on domestic trade.

With the adoption of another income tax in 1913 the federal revenue structure was radically transformed, as shown in the tail end of Figure 10 and the beginning of Figure 11. A government formerly funded by specific sales taxation took a big step toward becoming a government funded by income taxation. The interwar period was a transitional phase, during which income and sales taxation were on par with each other. Also during this transitional period, customs revenue was becoming less important: in 1913, for example, federal sales taxation consisted of roughly equal parts customs and internal revenue; by the late 1930s, customs had declined to less than a fifth of all

federal sales taxation. During World War II, the transition was completed: income taxation became the dominant source of federal revenue. The shift toward income taxation was even more decisive and enduring than the first impression from Figure 10, which shows the income tax share declining during the postwar period. In fact, for the purposes of the current discussion, this decline is misleading because the rising component (insurance trust revenue) is actually a variant of income taxation — the Social Security payroll tax.

While federal income taxation, broadly defined, was rising in importance, its composition was changing. The twentieth-century federal income tax actually consists of two major regimes. During the first, lasting from 1913 through the 1930s, federal income taxation hit only the most affluent — the top few percentiles in the income distribution. During World War II, the income tax was extended considerably, extracting at least some revenue from nearly all income earners, except for the poorest. In effect, a "class tax" became a "mass tax". This development was reinforced in the other part of the federal income tax system: the payroll tax is even more accurately described as a mass tax, since it imposes a uniform rate on earned income, unlike the income tax proper, which exempts the poorest income earners and imposes progressively higher rates moving up the income scale. Indeed, the payroll tax is mass taxation with a vengeance: it applies only to earned income (wages and salaries, but not interest income, capital gains, and so forth), and it exempts income at the top end of the income distribution.[10]

Another trend at work within federal income taxation suggests similar themes. As noted in the discussion of fiscal classification, income taxation is typically divided into two components: taxes imposed on individual income; and taxes imposed on corporate

[10] In 1937 only the first $3000 of earned income was subject to payroll taxation. This ceiling has been increased over the years. As of 2001, it was $80,400. In inflation-adjusted terms, this represents very roughly a doubling of the ceiling. The Medicare portion of the OASDHI payroll tax was, but is no longer, subject to the ceiling.

income (usually on a net basis, that is, after deducting for business expenses).[11] As of the late 1920s, about 60 percent of federal income tax revenue came from corporate income. As will be seen in this study, the heavy reliance on corporate resources is consistent with the fiscal ideology of the period, and it finds direct parallels on the state level. Beginning in the 1930s, the long-term trend has been to shift income taxation away from corporations and toward individuals, so that by the late twentieth century only about one-fifth of the federal income tax is corporate. This statistic focuses solely on the income tax proper and therefore understates the larger trend, because the OASDHI payroll tax — the other part of the broadly-defined federal income tax system — belongs almost entirely on the individual side of the ledger.[12]

Unlike the fairly good data situation for the federal government, we lack a comprehensive dataset on the revenue structure of the local government sector. Nonetheless, the existing case studies, the partial efforts to collect local data for the nineteenth century, and the fairly good data for the early twentieth century all suggest that local governments relied very heavily on a single revenue source during the nineteenth century: property taxes. This revenue structure persisted well into the twentieth century. On the eve of the Great Depression, property taxes accounted for about two-thirds of local revenue, as shown in Figure 12. In a pattern now becoming familiar, a major reorientation of the local fiscal structure began during the New Deal. Property taxes embarked on a substantial long-term decline within local budgets. Taking their place were intergovernmental revenues. Indeed, by the end of the twentieth century, property taxes were no longer the main revenue source for local government, contrary to popular perception as well as many journalistic or casual academic treatments of local fiscal affairs, which tend to equate local finance with property taxation. Certainly, the property tax is *the* local tax, so any discussion of local taxation is

[11] Non-corporate business income typically falls under the individual income tax.

[12] Employees directly pay half of the payroll tax, since it is withheld like ordinary income taxes (at least during the postwar period) at the time that paychecks are distributed. Moreover, in terms of ultimate tax incidence, the employer share of the payroll tax is mostly born by employees in the form of reduced wages — a point commonly accepted among economists.

justified in focusing on this levy. But the deeper truth is that local governments have, to a significant degree, become creatures funded by means other than taxation. The most important is intergovernmental revenue, most of it coming from state government. That revenue, of course, ultimately comes from taxation, but it is not tax revenue raised through the direct political process of local government imposing a levy on property under its jurisdiction; rather, it is revenue that comes via a complex set of arrangements among different levels of government — politics of a different sort.

If local governments depend significantly on revenue raised at the state level, the obvious next question is to examine where states get their funding. As discussed in the previous chapter, we do not have a fully fleshed out body of information about nineteenth-century state revenue structure. Two efforts have been made in recent decades to assemble state-level fiscal data, one by Charles Holt during the late 1960s and the other more recently by the team of Richard Sylla, John Legler, and John Wallis. At least in the versions obtained for this study, these datasets are both incomplete and flawed.[13] And the troubles go deeper: even if the datasets accurately report the state sources, there is incredible diversity in the nineteenth-century state financial reports.[14] As the documentation for the Sylla-Legler-Wallis dataset explains, these figures are self-reported. States used their own systems of fiscal classification — systems that, even when sensible, might not jibe with systems employed by other states. Although problems of this sort continued to exist during the twentieth century, they were considerably alleviated by the Census of Governments, which has had a standardizing effect on the way that state (and local) governments track their fiscal affairs. The bottom-line is that we can make reasonably accurate generalizations about broad categories of state finances during the nineteenth century, with declining confidence the farther one goes back in time. For major categories like total revenue and

[13] See Holt 1977, which is a reprint of Holt's 1970 dissertation, as well as Richard E. Sylla, Legler, and Wallis 1993.
[14] In e-mail correspondence, Wallis described the original sources as "highly, deeply, profoundly idiosyncratic." (January 2003).

expenditure we are on reasonably firm ground. But for finer details — either for narrower fiscal categories or for samples of states — the confidence diminishes rapidly. The existing datasets are simply too partial and too preliminary.

With those caveats in mind, what are some of the broad trends in state revenue structure? Both the overall reliance on taxation and, more specifically, property tax reliance fluctuated considerably during the century, most notably during the 1820-1850 period, as shown in Figures 13 and 14. These fluctuations capture an important period in American fiscal history, one to be explored in more detail in Chapter 5. For now it suffices to say that the sharp drop-offs in the two graphs are associated with a turn by many states (though not all) toward various types of "asset income," rather than direct taxation — in other words, either income derived directly from state-owned assets (such as canals tolls or land sales) or income obtained indirectly through the state's regulatory and business-chartering powers (dividends from bank stock or various indirect business taxes). The collapse of this era in state finance was closely connected with the financial crises of the late 1830s and early 1840s. As the bottom fell out, there was a turn away from the kind of state activism and boosterism that had characterized the earlier period, with long-term impacts on some of the aggregate fiscal indicators under discussion here: an extended period of fiscal restraint on the state level, as shown in Figure 7; fiscal localization, as shown in Figure 6; and in terms of revenue structure, heavy reliance on taxes generally and property taxes in particular, reaching historic highs in the late nineteenth century, as shown in Figures 13 and 14.

From roughly 1870 to 1890, then, property taxation dominated both state and local finance. But the similarity ends there. Unlike local government, which did not initiate its long-term shift away from property taxation until the New Deal, state governments began to turn to other revenue instruments as early as the last two decades of the nineteenth century, and then accelerating rapidly beginning in the 1910s. As of 1927, the last pre-New Deal observation in Figure 13, property taxation was only one-sixth of

total state revenue. Thus, the New Deal fiscal transformations simply punctuated a longer trend of declining state reliance on property taxes.

Although the purpose here is to summarize aggregate national trends, the subject of property tax reliance provides an opportunity to raise a general point — namely, diversity among the states, itself a matter for in-depth statistical investigation. Collectively, states relied heavily on property taxation during the 1870s and 1880s, after which they moved away from the tax. However, exceptions can be found for both of these generalizations. Even during the heyday of state-level property taxation, there were states that had already abandoned the tax, or that had never employed it very much in the first place. And many states relied heavily on this revenue instrument until the Great Depression, more directly paralleling the timing of the local sector. A statistical point related to such diversity is that national fiscal aggregates are strongly influenced by the largest states. These populous, big-economy, big-fisc states tend to drive most of the generalizations under discussion here, a point that will be explored later when statistical variations across the states are examined more closely.

For the twentieth century, the available data allow an examination of state revenue structure at a finer level. Unlike the situation with local and especially federal government, where the dominant revenue sources can be shown on simple graphs with just a few lines, the state sector exhibits a noteworthy complexity. Once creatures feeding mainly at the property tax trough, twentieth-century state governments became fiscal omnivores.

Figure 15 makes an initial attempt to capture this complexity by presenting four major revenue categories: taxes, intergovernmental revenue, the catch-all of charges and miscellaneous revenue, and finally the sum of the three non-general revenue classifications (insurance trust, utility, and liquor store revenue). At this broad level, the main story is the declining relative importance of taxation. As with local government,

the major factor behind this shift has been the increasing role of intergovernmental revenue — in this case, coming from the next level up the chain of command, the federal government. It is worth recalling the federal revenue structure and its heavy reliance on income taxation. In this light, state intergovernmental revenue can be understood as a shift to income taxation, but with the politically important difference that the tax is collected at the national level rather than in particular states. The growing importance of intergovernmental revenue represents only about half of the state-level shift away from taxation; the other half is the relative growth of the non-general category. The vast majority of this aggregation is insurance trust revenue (utility and liquor store revenue are minor components, accounting for about one-fourth of the category in the late 1950s and reaching tiny proportions by the end of the century).

At this point, a short detour is helpful concerning the subject of insurance trust programs. This COG classification exists on all three government levels — federal, state, and local — but the massiveness of the federal OASDHI program tends to color the impression of this category. Insurance trust at the federal level, however, is rather different than insurance trust at the state and local levels. Social Security, the dominant component of OASDHI, is popularly understood as a government-administered retirement savings plan, to which employees and employers make contributions. The program has been wrapped in rhetoric implying that each individual has an "account" in the Social Security system: upon retirement, an individual will make regular withdrawals from his or her account. Rhetoric and government accounting aside, Social Security has never been a retirement savings program; rather, it is a pay-as-you-go social welfare program, in which current employees are taxed in order to provide benefits to current retirees.

On casual inspection, state and local insurance trust seems similar, and in some respects they are. At the state level, the insurance trust category began, during the 1920s and early 1930s, in the area of public employee retirement programs. Beginning in the 1930s

and continuing into the late 1960s, however, the major component of state-level insurance trust was unemployment insurance. Since then, the trend has reversed, with public employee retirement programs assuming the dominant role. Meanwhile, on the local level the pattern is much simpler: insurance trust has been used almost entirely for public employee retirement programs. In this light, the COG classification — insurance trust — seems consistent across the federal system. At all government levels one finds systems dedicated to the provision of retirement benefits. However, the state and local systems differ from the federal system in having a much narrower conception of the covered population — only public employees.

It helps to think about this fiscal category a bit more closely, for two general reasons. First, fiscal data are not always self-evident. The data collectors make classification decisions when assembling the summary measures of government's myriad financial transactions. Some of the classifications are straightforward, but others may better reflect the then-current standards of governmental accounting than those of social scientific investigation. Second, occasionally these classification decisions can shed light on the prevailing fiscal ideology, a topic to be explored in greater detail later.

As an example of the potential relevance of classification decisions, consider this question: why are insurance trust revenues labeled as something distinct from taxes? At all government levels, much of the insurance trust category walks and smells (though may not talk) like garden-variety taxation. Specifically, one broadly defined class (employees or employers) pays money into a fund, from which benefits are distributed to an equally broad class (retired, unemployed, or injured workers). Less obvious is the case of public employee retirement programs, which account for the majority of state and local insurance trust revenues. One could try to make the simple argument: a tax is a tax is a tax. On the other hand, the taxpayers and benefit recipients of the state and local systems are decidedly circumscribed — public employees, active and retired. This sort of narrowly tailored program could very well differ from social benefit programs

funded by ordinary taxation. That's one issue. To see another consider this idealized example.

- A small government collects $1 million in tax revenue, which it spends entirely on the salaries of public employees.

- These employees then contribute 5 percent of their paychecks into a public employee retirement system (to keep things simple, this system has no administrative costs, no investment income, etc.).

- These contributions represent insurance trust revenue, making total government revenue equal to $1.05 million: $1 million in tax revenue, plus $50,000 in insurance trust revenue.

- Each year the $50,000 is distributed among retired public employees, making total government expenditure also equal to $1.05 million.

Now consider a different accounting.

- The same government raises $1 million in taxes.

- It pays $0.95 million in salaries to active employees.

- It pays $0.05 million in benefits to retired employees. Under this accounting public employees simply have a smaller paycheck, and the cost of supporting the public employee retirement system is viewed as a normal component of general government, the notion being that paying for the system is just one aspect of the total cost of employing a public sector labor force.

- Total revenue equals $1 million, which equals total expenditure.

The purpose behind this conceptual detour is not to resolve either of the classification questions: is insurance trust revenue different than taxation, and perhaps even different than government revenue? Although the prevailing COG classifications were not created willy-nilly, their reasonableness depends on one's purposes. Furthermore, they do affect things that interest social scientists: How large is our hypothetical government, and what is its revenue structure? Thus, a trend such as the declining importance of tax revenue for state government is partly due to classification decisions (the treatment of insurance trust revenue or any other non-tax budgetary items), partly due to changes in federalism (the rising importance of intergovernmental revenue), and party due to fiscal shifts that probably raise no tricky classification decisions at all. As an example of the latter, if states go into the business of running liquor stores, one would be hard-pressed to argue that revenue from liquor sales belongs in the same category as, say, income taxation. There really are "non-tax" revenue sources.

Classification issues aside, the broadest trend in state revenue structure over the twentieth century is the declining importance of taxation — just as we observed for local government. Within the taxation category, several trends are important. Figures 16 and 17 provide a visual expression of the theme noted at the outset: during the twentieth century American state governments have depended on multiple tax sources.

The century began with state governments relying heavily on property taxation, which accounted for over half of all *tax revenue* (remember that tax revenue, not total revenue, serves as the denominator for Figures 16 and 17). Moreover, the second largest category shown in the figure (other taxes) consisted overwhelmingly of various "special property taxes," as they were called. The nomenclature was intended to contrast these property taxes from the fiscal mainstay, the general property tax. Special property taxes are extremely important in state fiscal history and will be explored in

detail later. The short description is that they were levied at specific rates on particular kinds of property, usually corporate or financial property. The general property tax, meanwhile, was typically applied at uniform rate against all significant forms of property, except for those targeted for special property taxation. Real estate was the type or property that generated the bulk of general property tax revenue.

By the end of the twentieth century, state governments had long ago abandoned property taxation (both general and specific) and had shifted to two tax sources of roughly equal importance. One source was sales taxation, which made a radical jump in importance during the Great Depression, when many states added general sales taxation (usually in the form of retail sales taxes) to the specific sales taxes that they already had on the books. The other major source of tax revenue is income taxation, which started sooner in the states than general sales taxation, but its relative revenue importance grew more slowly. Within the income tax category, the trend parallels the federal situation almost exactly: individual income taxes accounted for about 40 percent of state income tax revenue in the 1920s; this figure now sits at about 80 percent.

Finally, Figure 16 depicts a trend that often goes unmentioned in overviews of state fiscal history.[15] The beginning and ending of the twentieth century draw attention to the obvious developments within state taxation: replacing the property tax with sales and income taxes. However, the first three decades of the century warrant closer examination. Property taxation plummeted in relative importance, even though the income and sales categories were not rising. Instead, an entirely different category filled the void: auto-related taxation, which includes taxes on fuel, vehicles, and driver's licenses. In fact, this category became the most important tax classification for a short period, and it was not overtaken by the steady-growing income tax until the late 1960s. "Auto-related taxation," it should be noted, is not a COG classification; typically, fuel taxes are grouped with special sales taxes, and the other auto-related levies are

[15] For a recent noteworthy exception, see Higgens-Evenson 2002; Higgens-Evenson 2003.

categorized as license taxes. Here, then, is another instance where fiscal classification matters. The prevailing COG categories make perfect sense; however, they tend to disguise a trend that is rather striking for a historian concerned about changing fiscal and economic structure — namely, the deep fiscal involvement of state governments in providing an infrastructure for the major transportation innovation of the twentieth-century, the automobile. An equally sensible shuffling of fiscal categories — the one used in Figure 16 — reveals rather than hides such trends. By this reckoning, auto-related taxation plays a transitional role in the evolving tax structure of state governments, rising in relative importance before the modern instruments (general sales and income taxation) became truly prominent. To hint at a topic to be explored later, the transitional importance of auto-related taxation goes beyond mere quantification: these taxes laid some of the political, ideological, and administrative groundwork for the reorientation of state taxation during the 1930s.

Expenditure structure

Compared to the nineteenth-century state and local revenue structure, in which a single category (the property tax) played such an important role, the expenditure structure was more diverse. The impression from the available data and case studies is that state spending was focused significantly on transportation infrastructure during the antebellum period. In the 1840s, the center of gravity began to shift away from transportation projects and toward spending on various forms of social control and social welfare — prisons, asylums, reformatories, hospitals, schools for the deaf and blind, and most notably education (both common schools and higher education).[16] By the end of the century, "the state's visible presence was in control, care, and courts" — as contrasted with the earlier emphasis on transportation.[17] This transition is illustrated

[16] See, for example, Holt 1977 and Wallenstein 1987, chapters 6 and 7.
[17] Monkkonen 1995, p. 107.

graphically in Figure 18, which provides rough estimates for the share of state spending on transportation and education.

Of course, as noted in the discussion of nineteenth-century fiscal localization, the real center of sub-national government expenditure was local government, not the states. Aggregate measures of local spending by function are not available. We do know, however, that the increasingly important area in state budgets — education — would have played an even larger role on the local level. We also know that fiscal localization really meant fiscal *urbanization*, due to the statistical dominance that late nineteenth-century cities and towns — with their larger populations, economies, and fiscs — would exert over any aggregate measures of local spending. Spending on the usual sorts of urban public infrastructure, therefore, probably would be important categories in such a statistical summary, if only the data were readily available.

At the federal level the data situation is better. For much of the nineteenth century, federal spending was dominated by a single category: military expenditures, which accounted for 40-50 percent of federal spending through 1870, with huge spikes at the expected times (the War of 1812, the Mexican-American War, and especially the Civil War). Such fluctuations are rounded out considerably if one adds another important spending category, interest on debt — essentially, paying for the last war. Together, military and interest expenditures accounted for about 60-80 percent of federal spending through the 1880s. Furthermore, the fall-off in this aggregate category beginning in the 1880s is a bit illusory, because the gap is filled by a closely related area: veterans compensations and pensions — another variant of paying for old wars — which would peak above 40 percent of federal spending during the early 1890s.[18]

Data availability on expenditures improves considerably for the twentieth century. Since federal finances are not the focus of this study and since the federal budget would

[18] Dataset HSUS, series Ea636 to Ea643.

assume a larger relative role in American governance, one way to begin is by considering total government spending — federal, state, and local. A useful approach is to consider defense and non-defense spending separately, because the huge spending surges during wartime compress the trends in other categories, making visual interpretation difficult. Spending on defense and international relations during the twentieth century can be summarized readily. Other than a modest spike during World War I, it remained below 10 percent of total government expenditure. World War II brought explosive growth in this measure, which reached 78 percent near the end of the war. Except for another spike during the Korean War, the category has fallen steadily since World War II, reaching 12 percent in 1995, which is very close to its level at the start of the century.[19]

Non-defense spending is a diverse mix, with none of the typical COG categories ever reaching much more than one-fourth of total government expenditure. Nonetheless, some noteworthy areas can be identified by focusing on those categories that were leaders at either the beginning or end of the century. Figure 19 highlights four broad categories, which together accounted for just under half of non-defense expenditure at the beginning of the century, and just under two-thirds at the end. The trend for two of the categories has been flat over the century — that is, neither a long-term increase nor decrease. Both education and "social services and income maintenance" started and ended the century at roughly one-sixth of non-defense expenditure (the social services and income maintenance aggregation includes the categories of public welfare, health and hospitals, veterans services, and employment security administration). Meanwhile, the other two categories shown in Figure 19 have undergone significant change in their relative importance. Once a moderately important area — at about 13 percent of non-defense spending in 1902 — transportation has become a negligible category. The striking trend in Figure 19, of course, is the substantial growth of insurance trust, now the largest spending area. This growth boils down to Social Security and Medicare

[19] See Dataset HSUS, series Ea61, Ea63, Ea636 to Ea640, and Ea644 to Ea646.

(OASDHI). Early in the century, insurance trust was a mixture of public employee retirement systems, unemployment insurance, and worker's compensation programs. Starting in the 1950s, and coinciding with the surge of the entire insurance trust category, Social Security (and later Medicare) spending accelerated rapidly. OASDHI now accounts for almost 80 percent of insurance trust spending for all government levels.

Thus, the explosive spending categories during the twentieth century — defense and OASDHI — represent the expenditure underpinnings of the fiscal centralization depicted earlier in Figure 6. The two dominant spending areas during the twentieth century are federal.

The same four categories — education, social services and income maintenance, transportation, and insurance trust — are displayed for state government in Figure 20. Especially as one moves to the state and local levels, expenditures pose a problem for social scientists studying long-term trends in the functional breakdown. It is more challenging to organize expenditures into categories that are reasonably consistent over time than it is with revenues. Also, during the first few decades of the century, the expenditure classification system was a hybrid of the two different ways of presenting expenditures in the modern COG era (recall Table 4) — that is, "by function" (education, transportation, etc.) or "by character and object" (current operation, apportionments, outlays, etc.). As a result of such difficulties, the "other" category graphed in Figure 20 is rather large during the early part of the century, and it is partially a measure of our ignorance. By the end of the century, this residual category is much smaller, and it represents a summation of lesser expenditure areas, which are available in functional detail in the COG sources: areas such as public safety, environment and housing, libraries, utilities, liquor stores, interest on general debt, general administrative costs, intergovernmental general support, and other miscellaneous expenditures. At the beginning of the century, the "other" category cannot be partitioned so readily. We do know that about 17 percent of state expenditures in 1902 were for public safety: police,

courts, corrections, and fire protection. About 5 percent were for "environment and housing," which embraces items such as sanitation, parks and recreation, and agriculture programs. That leaves about 21 percent with unknown functional breakdown, some of it for interest on general debt, some for general administrative costs, and some for miscellaneous items that are not delineated in the COG sources.

In any case, taking the twentieth century as a whole, the largest single area that we can consistently identify across time is education spending, which accounted for anywhere from a quarter to a third of all state expenditures. Most of this spending takes the form of intergovernmental expenditure — that is, funds collected by state government but transferred to local governments for educational purposes. In fact, we can make a dual statement: most state education spending is intergovernmental (roughly 60-70 percent over the entire century); and most state intergovernmental expenditure is for education (currently about 60 percent, but as much as 90 percent during the early part of the century).

Before moving to the other functional areas, it is worth making an additional point concerning state intergovernmental expenditure generally. It has been steady over the course of the century, at about 30 percent of total spending. Fiscal centralization at the state-local level, then, does not represent an increasing *share* of the state budget being diverted to local government; rather, it represents state revenue growing more rapidly than local revenue, all the while maintaining a steady percentage of state revenue being diverted to the local sector.

The other major category in Figure 20 that has been consistently important in twentieth-century state expenditure is social services and income maintenance, which is dominated by public welfare programs and spending on health and hospitals. Although "health and hospitals" might invoke the image of ordinary medical hospitals, one should remember than for state budgets, hospitals frequently have meant mental hospitals.

Expenditures for the insane, for example, were 11 percent of total state spending in 1902 — half of the entire aggregation called social services and income maintenance. Beginning with the New Deal, the two main sub-categories — public welfare and health and hospitals — underwent a complete and enduring reversal in terms of their relative importance within the social services and income maintenance category. Health and hospitals, formerly about three-fourths of the category, dropped down to about one-fourth, where it has remained. At the same time, public welfare became the dominant sub-category, accounting for 60-70 percent of the total. Thus, the trend in the broad category of social services and income maintenance — moderate growth during the century — actually hides a major relative shift within the category away from health and hospitals and toward public welfare.

Insurance trust is a category closely related to social services and income maintenance. Its substantial growth at the federal level has been noted. At the state level, however, insurance trust has not been a dominant expenditure category, fluctuating in the 10-15 percent range during the postwar period. This is because state-level insurance trust, unlike the federal OASDHI programs, is confined to a narrower population base — retired public employees, the unemployed, and injured workers.

The remaining expenditure category depicted in Figure 20, transportation, shows the most dynamic variation from one historical period to another. During the first three decades of the century, the category grew tremendously. The bulk of transportation spending has been for road building and maintenance. "Highways" and related categories have consistently accounted for 90 percent or more of state transportation expenditures. During the early part of the century, then, state governments embarked on a substantial reorientation of purposes, shifting from areas such as education and carceral institutions into the building of an automobile infrastructure. The point is not that spending on these other areas declined, either in per capita terms or relative to economic growth. Rather, transportation expenditure grew so decisively that the

relative roles of education and social services were driven down. This expenditure shift is the counterpart of the revenue transformation already noted — namely, the rise of auto-related taxation, which was typically earmarked for road construction. Beginning with the New Deal, albeit with some large fluctuations along the way, transportation spending has suffered a long-term relative decline. By the end of the century transportation had been demoted to second-tier status within state budgets — roughly how it began the century.

On the local level, the main rising trend has been for education spending. As shown in Figure 21, education spending began the century at about one-fourth of local expenditures, reached a high point during the late 1960s (about 43 percent), and ended the century at slightly above one-third of local spending. The role of state intergovernmental spending is important to recall in this context. After deducting for state intergovernmental expenditure, local education spending actually shows a slight *decline* over the twentieth century. Thus, the rising relative importance of education within local budgets is largely a statistical outcome of the growth in state intergovernmental expenditure (the ultimate political causes may be more complex).

The second major spending area depicted in Figure 21 is transportation. Unlike state government, which began the century spending very little on transportation, local governments already contributed a significant share of their budgets to transportation. Beyond that difference, however, the long-term trend is the same: rising relative importance during the early part of the century (although not as radical as the shift on the state level), followed by long-term decline.

The third most noteworthy area in aggregate local expenditure is utilities, which have not exhibited a strong trend in terms of relative importance. It makes some sense to consider transportation and utility spending together, as an aggregate representing the local physical infrastructure. As a combined category, transportation and utilities began

the century being slightly more important than education spending — just over one-fourth of the total. The trend since than has been roughly a mirror image of that for education spending: moderate long-term decline, ending the century at about 16 percent. This combined trend is comparable to the situation observed at the state level: beginning in the 1930s there was a fiscal reorientation away from physical infrastructure and toward various human services.

For the sake of completeness, one should note that Figure 21 omits a large chunk of local spending, fluctuating in the 40 to 50 percent range, again illustrating the difficulty of encapsulating the expenditure picture over a long period. This large "other" category consists of a collection of lesser spending areas for local government: public welfare (never above 10 percent of total expenditure); public safety (steady at 7-9 percent); sanitation (about 5 percent); health and hospitals (slow long-term rising trend, ending the century at 7-8 percent); and a variety of even smaller categories.

Figure 22 summarizes the combined state-local expenditure trends, which are obvious by this point in the discussion. There was a moderate rise in importance for education, though the increase is less impressive than the picture one gets by examining local spending in isolation from state intergovernmental transfers. Meanwhile, transportation has declined significantly since its peak in the 1920s. The area showing the most growth in Figure 22 is not an official COG classification, but it makes some sense — namely, social services and income maintenance (public welfare, health and hospitals, and veterans services) plus insurance trust (all income maintenance programs of one sort or another). This broad aggregation began the century as a relatively minor component in state-local expenditure, but it now rivals education in importance.

Conclusion: fiscal regimes along multiple dimensions

A few historians have ventured to identify the major eras or regimes in the long sweep of American fiscal history. John Wallis, for example, begins with "a simple economic model of government," which emphasizes the idea that the political system will tend to balance the marginal political costs and benefits of additional taxing and spending, not only within individual governments but across them, leading to a kind of equilibration across the levels of government. A key implication is the following: if a level of government has an inherent administrative, economic, or political advantage in levying the most important type of tax during a certain era, that level of government will tend to be the most fiscally active, not merely in raising revenue but also in playing a more active role in promoting economic development. Following this line of thought, Wallis identifies "three distinct systems of government finance." Each system is characterized by both a prominent revenue source and a level of government that is more active than the others.[20]

- State: asset income (through 1842).
- Local: property taxation (1840s through 1920s).
- Federal: income taxation (1930s to the present).

Ballard Campbell is another scholar who has offered a broad periodization, one concerned not merely with fiscal characteristics but with the entire political system — governance broadly defined. He identifies the following periods.[21]

- Republican polity (through 1870s).
- Transitional polity (1880s through 1920s).
- Claimant polity (1930s through early 1970s).
- Restrained polity (late 1970s to the present).

[20] Wallis 2000a; quotes from p. 64 and 60. Also see Wallis 2001a, where the same model is stated in more formal terms.
[21] Ballard C. Campbell 1995. For another fiscal periodization, see Monkkonen 1995, p. 107-8. For an explicit regime-based approach to a topic in political and economic history, see Eisner 1993.

The foregoing discussion of fiscal trends offers some reinforcement to such efforts to identify fiscal or governing regimes. Clearly, Wallis, Campbell, and others are on to something important when they emphasize the differences before and after 1840, 1880, or 1930. On the other hand, even the broad-gauged review of statistical trends presented here raises a number of obvious complications. Wallis emphasizes state and local government in labeling the nineteenth-century regimes, even though the federal government was actually the largest level for most of the century.[22] Cambell's Republican Polity camouflages the major transition at the state-local level beginning around 1840. The changes in state revenue sources and state-local fiscal centralization during the late nineteenth and early twentieth centuries do not fit very well in Wallis' scheme focusing on local property taxation during this period. And, in spite of its plausibility, Cambell's "restrained polity" is not readily seen among the broad fiscal measures examined so far.

The evidence underlying such criticisms will be explored in greater depth in subsequent chapters. For now, the point is not to nit-pick what are reasonable efforts to provide big-picture overviews; however, it does seem fair to say that complexity rapidly overwhelms them. Having delved no deeper than national aggregates of major fiscal categories for the three main levels of government, one already suspects that a tidy set of fiscal regimes is beyond the grasp. Changes are occurring along too many dimensions, and the turning points do not neatly coincide. Nonetheless, periodization is a useful exercise and it helps to boil things down to their essentials. Table 6 is an attempt along such lines. It fails to achieve the elegance of a handful of regimes with pithy labels, but it does have the virtue of giving a nod to the confounding complexity of the fiscal landscape.

[22] Holcombe and Lacombe raise the same question about Wallis' periodization; Holcombe and Lacombe 2001.

Section 2.
The rise of the general property tax

To come to grips with American state and local fiscal history one must chart the course of the nineteenth-century general property tax. The early scholars of American fiscal history — Richard Ely, Edwin Seligman, David Wells, Carl Plehn, and others — understood this and were preoccupied with what they believed was a severe fiscal crisis, in which an old revenue instrument no longer fit the new economic conditions.

While these experts correctly emphasized the importance of the general property tax, their characterization of its historical origins was deficient in a number of ways. In spite of these deficiencies, their account has had remarkable staying power. Even though subsequent generations of historians would challenge the so-called Progressive school on a number of fronts in American political historiography, the traditional account of the development of state and local taxation remained largely intact. An important historical overview of the general property tax published in 1965 by Sumner Benson, for example, seems very much at home in the fiscal literature of the early twentieth century in offering themes like this: "As an independent United States moved into the nineteenth century, the concept of equality began to spread. This political idea was applied to the economic sphere in the nationwide growth of general property taxation."[1] With certain qualifications, it is fair to say that this traditional account continues to find a place even in recent fiscal historiography. However, over the past few decades there has also been a growing body of scholarship that, while not necessarily couched as refutations of a traditional account, nonetheless provides a compelling body of information to cast the origins of the general property tax in a rather different light. Indeed, many of the

[1] Benson 1965, p. 72.

historical details provided by the Progressive scholars themselves provide such ammunition.

This section of the dissertation consists of two parts: a short chapter dealing with the colonial and early national periods, and a more extensive chapter on the rise of the general property tax during the antebellum period.

The primary contribution of these chapters lies in the areas of synthesis and critique. Even though the existing fiscal historiography is small and therefore seemingly does not require synthesis, the literature is particularly scattered: across time (both its subject matter and its year of publication), across space (states or regions covered), across topics (directly fiscal versus closely-related political matters), and across academic disciplines (economics, political science, and history). The ensuing discussion attempts to bring many of these scattered pieces together in a way that draws attention to key historical developments and identifies overarching themes. In so doing, these chapters also offer a critique of the existing historiography on the general property tax. Some of the interpretations criticized here are legacies of Progressive-era scholarship that have survived, at least in part, for the reason aptly noted by Robin Einhorn: "Only the long-term neglect of the history of taxation ... can explain the persistence of a frontier romance in our view of the origin of this tax policy."[2]

[2] Einhorn 2001, p. 1003-4.

Chapter 4.
The colonial and early national background

Colonial fiscal affairs are not an area of focus in this study. However, the colonial and early national periods provide a useful background against which to evaluate the nineteenth-century developments. A brief consideration of this period also allows for the definition of some general concepts and offers an opportunity to raise themes that will be pursued during the more detailed narrative that follows this chapter. Within the wider study, this chapter has the following purposes:

- To provide a better understanding of the nineteenth-century general property tax by examining property taxation that was decidedly *not general*.

- To illustrate the importance of regional or geographic variation in fiscal studies.

- To suggest the promise of fiscal considerations in the understanding of comparative politics.

- Along such lines, to provide an example of the tight interconnections between fiscal arrangements and wider political battles over democratization, institutional arrangements, constitutional rules, and so forth.

- To emphasize the vital importance of wealth structure as a determinant in fiscal politics.

• To establish fiscal negativism as a key theme in American politics and to provide a starting point for an economic and political explanation of this phenomenon.

At the outset it should be noted that our understanding of this period is limited, and the quantitative record is especially sparse. The information presented here is based largely on two types of sources. On one hand, there are a few long-term overviews of American fiscal history that touch briefly on the colonial or early national periods. These works, much like the present study, are interested in the colonial period primarily as a backdrop for subsequent developments.[1] Supplementing these broad treatments, in which the colonial period plays a peripheral role, are an even smaller number of recent historical investigations of colonial fiscal affairs. Limited though it is, this research suggests that fiscal studies can shine a revealing light on colonial and early national politics — a potential still not fully realized.[2]

The nineteenth-century general property tax defined

In light of the comparative purpose of this chapter, it might help to state more explicitly some of the key principles behind what would become the dominant revenue instrument of both state and local governments — the general property tax. This tax emerged in partial form in some states during the first third of the nineteenth century, gaining substantial momentum in the 1830s and 1840s. By the 1850s the tax was widespread, and it thoroughly dominated the aggregate state-local revenue picture in

[1] Plehn 1926; Leland 1928; National Industrial Conference Board 1930a; Benson 1965; Brandon, Rowe, and Stanton 1976; Fisher 1996b; Howe and Reeb 1997; Wallis 2001b.

[2] We lack anything approaching a comprehensive history of the colonial fisc. The closest approximation is Robert Becker's book-length investigation of fiscal politics from 1763 to 1783, which is an excellent place to begin an investigation of colonial taxation. See Becker 1980, along with Henderson 1990 and Einhorn 2006. Those sources provide references to older studies of colonial finance. Also see Rabushka 2002, although this essay suffers from a lack of documentation, due to its publication venue. For fiscal affairs at the national level — sometimes with important connections to state-level tax collection — see Ferguson 1961; Roger H. Brown 1993; and Stabile 1998.

the last half of the century (recall Figure 13, as well as the nineteenth-century implications of Figure 12).

The nineteenth-century general property tax was different than earlier American and European variants of property taxation. The tax came to have several distinguishing characteristics, at least in terms of the ideal, which was satisfied to varying degrees across the states.[3] Three characteristics were especially important: universality, uniformity, and ad valorem.

The general property tax was *universal* in that it was supposed to tax all forms of property. Observers of twentieth-century property taxation think of property almost exclusively as real estate (land and permanent buildings), but the general property tax was not so confined. It was supposed to tax both realty and personalty: not only the farmer's land and the city-dweller's home, but also their wagons, implements, pianos, jewelry, and — of particular importance — financial assets, or "intangibles" as they are frequently called in this literature (stocks, bonds, securities, notes, mortgages, life insurance funds, credits, savings, other account balances, and so forth). The exceptions to universality were supposed to be rare, confined to matters of public purpose (charitable, religious, governmental, or educational property) and practicality (items of such low value as to be not worth the administrative trouble of taxing them). The general property tax was *uniform* in that all property subject to taxation was supposed to be valued and taxed alike — that is, using the same principles, mechanisms, and rates. Specifically, the method of taxation was *ad valorem* — according to the market value of the property. In ideal form, then, a general property tax regime was supposed to locate all significant, non-exempted property wealth within a jurisdiction, determine is market value, and then tax it at a uniform rate.

[3] For a helpful discussion of the defining characteristics of a general property tax in ideal form, see Fisher 1996b, p. 10-11.

Colonial revenue structure and property taxation

Unlike state and local governments during the nineteenth century, which came to rely on a single dominant revenue source characterized by the ideals of universality and uniformity, governments during the colonial period are noteworthy for the diversity of revenue instruments that they employed.[4] During some periods, non-tax revenue instruments appear to have been quite important. For example, in the administratively underdeveloped context of colonial governance, part or all an official's salary might come from fees for services rendered, such as issuing documents or keeping public records.[5] Some accounts indicate that during the early colonial period, particularly in New England, governments received some support though voluntary contributions that often assumed a churchly or philanthropic character.[6] Other non-tax revenue sources would include lotteries (especially in the later colonial period), various fines, and labor services (the latter a tradition that would continue into the twentieth century in areas such as rural road maintenance).[7] Colonial governments also relied on a variety of indirect taxes — revenue instruments that would typically fall under the modern fiscal category of sales taxation. Such taxes naturally would include customs duties, a revenue source for both colonial governments and their European colonizers. They would also include specific excises imposed on the sale of various goods (alcohol, tobacco, and so forth) or on shipping tonnage. However, the impression from most overviews of the period, especially once the colonies had become more settled, is that the two most important revenue instruments were direct taxes: specifically, property taxes (on land, livestock, the harvest, or other forms of wealth) and poll taxes. Although twentieth-century poll taxes are typically associated with efforts to restrict the suffrage in the South — tax payment being linked to the right to vote — colonial and early nineteenth-century poll taxes were conceived more broadly, as a tax on income-producing laborers. They were typically a per capita tax imposed on free males who had reached the age of

[4] Benson 1965, p. 23-4.
[5] Ely and Finley 1888, p. 112-13; Rabushka 2002.
[6] Ely and Finley 1888, p. 109; Rabushka 2002; Brandon, Rowe, and Stanton 1976, p. 10.
[7] On lotteries, see Ely and Finley 1888, p. 113.

military service, and on both male and female slaves who had reached an age sufficient to be productive workers for their owners.[8]

It is not entirely clear whether colonial — and early national — property taxation reflected this fiscal diversity or whether, in actual practice, it boiled down to a land tax. Some authors emphasize diversity, describing the property tax as one that fell on real estate as well as a welter of other types of property (livestock, ships, merchandise, personal possessions, slaves, and sometimes intangible wealth).[9] Other accounts emphasize land taxation when discussing colonial or early national property taxes.[10] No doubt there was variation across both geography and time. Also, even a diverse property tax would tend to be dominated by its land component, given the relative importance of land within the colonial economy's wealth portfolio. A crucial exception to this observation is found in the South, where wealth in the form of slaves, and hence taxation based on this wealth, was of great significance.[11]

Colonial and early national property taxation differed from what would become the nineteenth-century general property tax. Rather than being an ad valorem tax, it was typically imposed in fixed amounts against specific items — so much per acre, per head, or per some other unit of physical measurement.[12] This sort of property taxation had European precedents. One might also note that it bears a certain resemblance to a customs revenue regime, the dominant form of revenue extraction at the national level during both the colonial period (by the British) and the early national period (by the U.S. federal government). In other words, taxed forms of property were enumerated specifically by legislation, and a specific rate schedule or taxing method was applied to

[8] Rabushka 2002; National Industrial Conference Board 1930a, p. 2; Bullock 1916, 1-4; Henderson 1990, p. 100; Thornton 1982, p. 353-54. Later in the nineteenth century poll taxes assumed a close association with education finance. Also noteworthy is that southern poll taxes were typically higher for free blacks than for whites.
[9] For example, see Benson 1965, p. 72. Also see Bullock 1916, 1-4.
[10] For example, the early property tax in Indiana was a per-acre land tax. Wallis 2001b, Section II.
[11] See, for example, Henderson 1990, p. 107.
[12] Benson 1965, p. 30; Fisher 1996b, p. 9-10.

each particular item. This particularity was accompanied by intense political lobbying as various groups sought favorable treatment for their brand of property — classic tariff-style politicking.[13]

Although frequently missing an explicit ad valorem basis, colonial and early national property taxation was not devoid of value considerations. For example, land might be classified for tax purposes into types that conceivably reflected the differing productivity of holdings. One might find distinctions between raw and improved land, or perhaps on the basis of various natural or geographic features. Depending on a parcel's classification, it would be taxed at different per-acre rates. For example, before moving to an ad valorem system, Indiana employed a three-way classification scheme — first rate, second rate, third rate.[14] In other cases, the definition of an "acre" varied according to productivity considerations: instead of representing a precise quantity of land, an acre for tax purposes might be defined as the amount of land required to produce ten barrels of cider, twenty-five bushels of corn, or a ton of hay.[15] On one hand, such classifications can be viewed as a crude, administratively practical way to implement property taxation consistent with the notion that owners of more valuable land ought to pay more in taxes — the essence behind ad valorem taxation. On the other hand, it is also possible that land classification — as politicized and as administered — reflected not merely an imperfect realization of ad valorem taxation, but a different conception altogether. Some classifications might have been based not merely on value considerations but also on notions about which social groups or economic sectors ought to bear higher or lower tax burdens. For example, the rates applied to personal property were in many cases explicitly and intentionally higher than those imposed on real estate;[16] in other cases, rural real estate received favorable tax treatment relative to town lots.[17] This feature of colonial and early national property

[13] Fisher 1996b, p. 10.
[14] Ely and Finley 1888, p. 133-4; Wallis 2001b, Section II.
[15] Ely and Finley 1888, p. 119.
[16] Leland 1928, p. 82.
[17] Wallenstein 1985, p. 465 and elsewhere.

taxation is interesting in its own right as a reflection of fiscal ideology. It also makes for a compelling contrast with the late nineteenth and early twentieth centuries, during which the opposite was usually the rule — namely, heavier taxation of real estate than other forms of property.

Indeed, more fundamental comparisons can be raised. This core feature of the colonial tax regime — classification — would become a major fiscal reform issue during the late nineteenth and early twentieth centuries. In this fiscal context, "classification" takes its very meaning in contrast to the general property tax's ideal of uniformity. Under a general property tax, burdens are imposed according to a general standard. Under a classified property tax, different classes of property are taxed under different schemes — personal property one way, commercial or corporate property another way, land (even different types of land) in still other ways. As one Progressive-era expert noted, "many of these [colonial] differentiations were for the purpose of approximating the true value of land, thereby promoting uniformity, but as these values changed the classifications became inadequate and produced unintentional variation in tax burdens."[18] At least for some antebellum fiscal reformers, then, the general property tax offered a promise of a rational, consistent approach to taxation, presumably avoiding the unfair distinctions and resulting politicking of a classified property tax regime. Just a few decades later, this very aspect of the general property tax — its uniformity and universality — would come under intense criticism, and "classification" would be touted as one of the most important reforms to fix a broken tax regime.

Classification is closely linked to an important ideological characteristic of colonial taxation — namely, ability to pay. This principle can be seen, for example, in the classification of lands into differing types according to their productivity, presumably reflecting their income-earning (and thus tax-paying) potential. One sees the ability-to-pay principle in the use of graduated poll tax rates, which might vary depending on the

[18] Leland 1928, p. 82.

tax payer's age, occupation, or wealth (or the age of the tax payer's slave).[19] In some cases, poll taxation, property taxation, and quasi-income (or occupation) taxation would travel together under the rubric of a faculty tax, the term "faculty" carrying both its meaning as an "occupation or trade," as well as the notion of "power or ability." Carl Plehn, an important Progressive-era fiscal expert, summarized the situation in Vermont as an apt example of the colonial faculty tax.

> Taxation was intended to cover all male inhabitants. Every male between 16 and 60 years of age, with a few definite exceptions, was "rated" at £6 on his person. That is, everybody was considered to be able to contribute something, whether he had property or not. Then the different items of property were "set in the list" over against the name of the owner at fixed rates. For example, each acre of improved land, 10s; an ox or steer four years old, £4; three years old, £3; two years old, £2; one year old, £1; a horse three years old or over, £3; all "horse kind" two years old, £2. Money on hand, or due, was listed at £6 in the £100. Then all persons were listed "for their faculty," according to occupation and earnings: attorneys at from £50 upwards, as the value of their practice increased; all tradesmen, traders, and artificers, "proportionally to their gains and returns." Other items of property were entered in the list in a similar way at fixed rates. The sum total of all the different items over against the name of each person was supposed to represent his total ability or faculty. The notable thing about all this is that only revenue-yielding property was listed. It was not a property tax purely, nor an income tax. But the thing which it sought to ascertain was how much ability or faculty each person had. All property that was regarded as indicative of faculty was listed, and many other things that were also indicative of faculty were included.[20]

Regional variation in revenue structure and fiscal progressivity

As would be true for the nineteenth and twentieth centuries, variation across regions was a major theme for colonial taxation. The impression from the existing fiscal overviews is that faculty taxation and ability-to-pay considerations were the strongest in

[19] National Industrial Conference Board 1930a, p. 3; Rabushka 2002.
[20] Plehn 1926, p. 93. Also see Rabushka 2002.

New England. This region relied more heavily on property and faculty taxation, and less on duties or excise taxes. Enhancing the region's ability-to-pay reputation in the historiography is an additional consideration, one important to understanding the politics of land taxation. In the abstract, a per-acre land tax offers substantial benefits to the owners of the best land, because they bear a much lower tax burden, relative to their wealth, than the owners of less valuable land. This sort of land tax, then, would seem to represent a significant boon to colonial elites who had managed to acquire the most desirable holdings — productive land with ready access to commercial markets. More so than other colonial regions, New England levied taxes against land on an ad valorem basis. These features — high reliance on property and faculty taxation, including ad valorem land taxes, along with a low reliance on duties and excises — worked to align the New England fisc with ability-to-pay principles. Counterbalancing these features, however, was the region's heavy reliance on poll taxation. On balance, it is difficult to know whether taxation in New England was merely proportional or perhaps even regressive in its ultimate incidence; nonetheless, it was probably less regressive than taxation in the other regions.[21]

By most accounts, the South sat at the other end of the spectrum, seemingly combining all of the regressive features of the colonial fisc: poll taxes, import and export duties, along with a system of land taxation — if land was taxed at all — favoring the owners of the best and largest holdings, both because of its per-acre basis and because of various exemptions (for example, low or no taxation for unimproved land, which benefited elites who had acquired large tracts of wilderness or undeveloped farm property). Becker conveys the prevailing view when he writes that "on the whole, the tax systems of the southern colonies were more regressive and less equitable than those in the middle and New England colonies."[22] Unfortunately, the evidence for this assessment is intuitive rather than rigorous. For example, the picture is complicated somewhat by a

[21] See Becker 1980; Einhorn 2006, chapters 1-3; Plehn 1926, p. 111-3; Benson 1965, p. 72; Brandon, Rowe, and Stanton 1976, p. 11; National Industrial Conference Board 1930a, p. 2.
[22] Becker 1980, p. 82.

unique feature of southern poll taxation, one often ignored in the literature, including Becker's account. Poll taxes in the North were clearly regressive, typically imposing the same burden on rich and poor alike. In the South, however, a significant share of poll tax revenue was levied against slaves, both male and female. As a result, the southern poll tax is best understood as a hybrid: a regressive tax paid by the free population, and an arguably progressive property tax paid by slave owners.[23] On balance, though, the prevailing view may still be true, with the South occupying the regressive end of the colonial fiscal spectrum.

Appropriately, the middle colonies sit between the other two regions: on the one hand, hardly any poll taxes; on the other hand, per-acre land taxation with exemptions granting considerable advantages to large land owners (most notably, the Penns in Pennsylvania and landed elite in New York's Hudson River valley).[24]

In spite of these regional variations, however, a certain commonality can be found in the colonial fisc, one tending to expose as mainly rhetorical performances whatever ability-to-pay principles historians have located among the various statutes, state constitutions, and political language of the colonial era. Becker summarizes this commonality.

> This diversity of law and practice concealed an underlying uniformity of purpose: throughout the American colonies, tax laws overburdened the politically impotent in general and the poor in particular and favored the politically powerful and the wealthy, particularly the landed wealthy.[25]

In light of this conclusion, it may not make sense to describe the fiscal system in terms of deviations from the colonists' ideal of ability-to-pay. The deviations are so numerous

[23] Becker 1980, p. 189 and elsewhere; Howe and Reeb 1997, p. 24.
[24] See, for example, Becker 1980, p. 157 and 177.
[25] Becker 1980, p. 6.

and severe that one wonders whether the ideal ought to be taken seriously at all as a representation of colonial fiscal ideology.

Expenditures

On what did colonial governments spend their revenue? The short answer is, not much. Their revenue needs were rather modest, especially in long-term historical perspective, even a perspective that purposely excludes the explosive phase of government growth during the twentieth century. Compared to state and local government during the nineteenth century (recall Figure 4), the scale of colonial governance was small, a fact that perhaps tended to mute whatever political grievances one might expect concerning the overall regressivity of the system.

Three more general points can be offered concerning the scale of colonial government. The first is that provincial (or "state") taxes were typically much lower than local taxes. In the 1770s, for example, the provincial taxes in Virginia and Massachusetts were probably not more than one-fourth the amount of taxes collected by localities (counties, parishes, and towns). Most peacetime government functions were administered at the local level: law enforcement, justice, prisons, highways, bridges, ports, ferries, public buildings, poor relief, education, and support for religion. Parenthetically, one should note that religious expenditures (clergy salaries and church facilities) accounted for a significant portion of colonial spending; moreover, other government functions, such poor relief, were often intertwined with fiscal support for religion.[26] A second general observation regarding government scale is that tax burdens, especially at the provincial level, fluctuated widely between times of peace and war. The third is that tax burdens also varied considerably from colony to colony, and between urban and rural areas within individual colonies. Towns typically suffered from political under-representation

[26] For 1765-1773, religion was 41 percent of local expenditure in Virginia and 28 percent in Massachusetts, according to the estimates provided by Henderson 1990, p. 97.

in colonial legislatures, which was no doubt an important factor behind the preferential treatment for rural land in most colonial fiscal systems. Towns also bore the higher tax burdens typically associated with urban environments, notably poor relief.[27]

Regional variation in fiscal politics during the Revolution and beyond

Fiscal comparisons across different colonies, or among different regions within a colony, represent a promising area for future investigation. A good example can be seen in James Henderson's study of taxation in Massachusetts and Virginia during the last half of the eighteenth century. He finds that tax burdens were considerably heavier in Massachusetts, especially local taxes. This difference was pronounced when measured per capita, per poll (per "taxpayer"), and per square mile. Only when taxes are expressed per *free* capita were the burdens roughly the same for these two colonies, immediately suggesting the critical role of slavery in the comparison between northern and southern political economies. As Henderson writes, "the very structure of a slave society militated against the socialization of wealth."[28] First of all, the political and economic elite bore a large share of the southern tax burden. The top 10 percent of wealth holders in Virginia, for example, paid about 40 percent of local taxes during the late eighteenth century; meanwhile, the same statistic in Massachusetts was roughly 30 percent. This difference reflects not so much less regressivity in Virginia's tax structure as the more fundamental fact that wealthy Virginians were better off than their counterparts in Massachusetts — a structural outcome that was itself closely connected to slavery, which allowed proprietors in a land-rich, labor-scarce economy to expand agricultural operations far beyond the labor constraints of a family farm. In fact, relative to their wealth, the Virginian elite bore a smaller tax burden than the one felt by either their counterparts in Massachusetts or their socioeconomic lessers in Virginia. Another important consideration is that for a large share of the population (slaves), social

[27] Henderson 1990, p. 93-4; Becker 1980, p. 12 and 56.
[28] Henderson 1990, p. 101.

welfare was entirely privatized — as a cost for slave owners. For both their own economic interests and as a workable political strategy to appeal to middling and lower classes, elites had strong incentives to keep tax burdens low. To such considerations favoring a restrained fisc one might also add the South's geography (more accessible waterways, lessening the pressure for transportation development), along with the region's dependence on an export crop (tobacco) that required little in the way of processing and that had a commercial trade monopolized by Europeans — both factors lessening the forces toward southern urban development, with its associated fiscal growth.

Tax burdens in the colonies rose dramatically during the Revolutionary period, far beyond previous heights reached in time of war. The fiscal-political responses to such developments were rather different in Massachusetts and Virginia. In the southern colony, tax burdens would be reduced not merely with the cessation of hostilities and the return to peacetime expenditure patterns, but also because of a strong and ultimately successful movement toward the separation of church and state in Virginia's fiscal affairs. With this major budget category eliminated, state-local tax burdens in Virginia during the 1790s ended up being lower than they had been before the Revolution.[29] In Massachusetts, however, fiscal rollback did not occur; instead, spending on areas such as education and roadways increased. "Not at all incongruously, while the landmark event in the history of taxation during the Revolution in Virginia was the separation of church and state, in Massachusetts it was Shay's Rebellion."[30] Even on a free per capita basis, then, Virginia ended up with lower state-local taxes than Massachusetts (recall that the two areas had been roughly similar on this basis before the Revolution). Disestablishment was a big part of the change in Virginia, since religion had accounted for about 40 percent of local taxes.

[29] Henderson 1990, p. 103-5.
[30] Henderson 1990, p. 105.

Differences existed among colonies not only in terms of the overall scale of government, but also in terms of the direction of fiscal reform during the Revolution and its aftermath. Becker's study of fiscal politics illustrates that the Revolution involved not only conflict against imperial control, but also conflict over the direction of the American political economy.[31] The intensity of such conflict tended to vary according to the degree of regressivity in the old fiscal system — notably in states such as New York and in the South generally. Becker suggests that the biggest reform movements occurred in such states, as fiscal systems shifted somewhat away from poll taxes and as land taxation both became more important and lost some of its discriminatory features. In some cases, exemptions for undeveloped land were eliminated; in others, land taxation began to adopt ad valorem features. In New England, meanwhile, the changes in revenue structure during the Revolution were less pronounced.

Wherever conflicts over taxation were waged, partisans perceived a tight linkage between fiscal outcomes and democratic political arrangements — foreshadowing a theme that would be of critical importance during antebellum battles over general property taxation. In Massachustetts, for example, "by 1778 many who demanded a new constitution were beginning to see a clear connection between existing property qualifications for voting and the revolutionary government's reluctance to reform the tax laws in general and to reduce the poll taxes in particular."[32] Meanwhile, elites were keenly worried about the fiscal consequences of democratization: if politics were based on numbers, would egalitarianism run rampant? In such considerations, the qualifications for suffrage were critically important, as were legislative apportionment (benefiting certain areas over others) and the degree of popular political influence over government posts charged with administering property taxes. Elites were concerned not only about the shift to a less-preferred system of land taxation (ad valorem, without exclusions for undeveloped holdings), but also the potential administrative favoritism within the context of a more democratic polity (tight enforcement directed against big

[31] Becker 1980, p. 115.
[32] Becker 1980, p. 122.

fiscal targets, and lax treatment for small land owners). Alexander Hamilton, for example, preferred the existing system of per-acre land taxation; however, if ad valorem taxation were adopted, he wanted the assessors and collectors to be appointed, not elected. In short, he wanted fiscal administration to be insulated from democratic and local politics.

> And therein Hamilton, Livingston, Schuyler, and others, who later formed the nucleus of New York's Federalist party, saw the defect of the new state government drawn in bold relief: it was too responsive to popular pressure to be run efficiently or fairly.[33]

Another striking regional comparison can be seen by considering the different fiscal experiences of states with respect to the new level of governance on the American scene — the federal government. For example, even though Massachusetts paid more federal taxes on a per capita basis, Virginia paid higher federal taxes where it counted politically — per free capita. As a result, the two states did not differ greatly in terms of their total federal, state, and local tax burden: $3.63 in Massachusetts versus $3.22 in Virginia (per year for the period 1794-1796). The *federal share* of this total burden, however, was very different in the two states: 43 percent in Massachusetts versus 70 percent in Virginia. The emergence of the federal government must have seemed very different to residents in these two states. In Massachusetts, federal taxation was viewed against a roughly comparable level of government activity and taxation at the local level; moreover, the new federal government had actually helped to lower taxes levied to cover the state's war debts. In Virginia, however, the magnitude of federal taxation overshadowed state and local burdens and effectively undid whatever relief Virginia taxpayers might have felt due to the cessation of wartime taxes and the severing of fiscal connections between church and state. On this fiscal basis, one gets the impression of two rather different, perhaps even diverging, political cultures — a difference that would be played out in national politics.[34]

[33] Becker 1980, p. 163.
[34] Henderson 1990, p. 111-14.

Beyond some very important differences among the states, however, one can also detect some broader areas of agreement. Compared to Virginia, Massachusetts may have had high state-local taxes during the colonial and early national periods, but both areas seem to have had low tax burdens if the basis of comparison is extended geographically (to Europe) or chronologically (to the nineteenth century).[35] Indeed, it is tempting to speculate that the colonial background was important in establishing a low-tax fiscal ideology that persisted through much of the nineteenth century, and perhaps beyond. Land grants and various tax exemptions had been used to attract settlers to the colonies. Such precedents, along with the contrast between a high-tax European polity and a low-tax colonial environment, possibly encouraged a kind of fiscal negativism. At the same time, antagonism between the colonies and the British authorities sometimes revolved around the issue of tax burdens, a dynamic that also could have instilled the view of taxes as outside intrusions rather than integral components of positive governance. Finally, the heavy tax burdens of the Revolutionary War may have contributed to an emerging fiscal negativism — specifically:

> the tendency of state governments after 1789 (until the Panic of 1837), under democratic pressures, to abandon not only poll taxes but also property taxation and partially to replace the revenues with indirect taxes and debt finance. The most significant effect of the revolutionary era on the structure of taxation may well have been the intensification of public resistance to taxes, especially those that were at once direct and internal.[36]

Indeed, the movement to create a stronger national government under the Constitution, as opposed to the looser structure of the Articles of Confederation, had been significantly motivated by this very dynamic — namely, the inability of state legislatures to collect sufficient tax revenue. The new state governments had been set up such that the assemblies were more responsive to popular pressures (for example,

[35] Becker 1980, p. 36-7 and 69, as well as Rabushka 2002.
[36] W. Elliot Brownlee 1981, p. 345.

with smaller electoral districts). One result was the election of a greater number of state politicians from the middling and lower gentry. These leaders were more in tune with the difficulties that the rural population faced not only in amassing the economic wherewithal for taxation, but also in gaining access to the hard money needed to pay taxes. These newly responsive legislatures largely failed to levy the direct taxes necessary to supply the Confederation government with the revenues that it needed. State after state went through a similar cycle, in which the political system would attempt to levy more direct taxes, only to be met with strong political resistance, which in turn led to various tax and debt relief measures. To nationalist reformers of the 1780s, many of whom would become the Federalists, the problem was bigger than the breakdown of the requisition system, under which the Confederation government was supposed to be funded by state tax levies. Rather, the inability of state legislatures to collect sufficient tax revenue was indicative of more fundamental problems of governance within an institutional setting that was too responsive to popular pressure. There was a moral or ideological component in this critique. Tax collection failures were thought to reflect a more general deficiency in industry, frugality, and civic commitment — in short, a population lacking the public virtue necessary to sustain a republic. A stronger government structure with better administrative control would not only better insulate tax collection from popular pressures, but might also create an institutional context to foster the higher human faculties. There was also a more immediate policy concern. Popular pressure would exert tight fiscal constraints over governance, both state and national (if there was to be any national government at all). These tight constraints would inhibit the ability of nationalist reformers to carry out their plans for economic and social development — plans that, in their view, required government at all levels to strike a more "energetic" posture.[37]

In the antebellum period, as we shall see, a similar set of concerns would be operative, as the promoters of various internal improvements pursued an active developmental

[37] Roger H. Brown 1993.

agenda that not only promised various economic benefits, but also held out some hope of getting state governments out of their fiscal box by creating significant inflows of non-tax revenue.

Chapter 5.
The antebellum general property tax

In providing a synthetic overview of the rise of the general property tax, this chapter covers a lot of territory. It might help, therefore, to summarize the general themes and interpretations that will emerge from the ensuing discussion.

- Contrary to the implication often found in existing historiography, which tends to imagine the general property tax as a product of simpler agrarian times, the rise of this taxing instrument was closely associated with economic and political modernization, along with the kinds of conflicts that typically accompany such social transformations.

- Similarly, much writing on the topic invests too much significance in the vague language that often traveled with the general property tax (uniformity, universality, equality, and so forth) and thus concludes that the tax somehow represented a manifestation of egalitarian democracy. A closer examination of the political battles over general property taxation suggests a rather different set of themes: the tax as a mechanism to achieve political consensus and sufficient revenue for various state or local development projects; the tax as a means to alter the distribution of burdens paid by various wealth classes; and the tax as one component of a wider set of political negotiations that were occurring within the context of a democratizing polity.

- In exploring such themes, this chapter places particular emphasis on the contrast between the North and the South, a contrast that reinforces two points

that will continue to appear in this study — specifically, the importance of attending to both regional variation and wealth structure when trying to make sense of fiscal politics.

• At a finer level of geographic distinction, this overview draws attention to various outcomes across states that otherwise shared regional and socioeconomic characteristics. The broader point, one that will reappear in subsequent chapters, is that historical contingency and path dependency matter and that socioeconomic predictors will take us only so far in making sense of fiscal outcomes. As closely balanced political forces contend within a political system, it is not unusual to observe generally similar states charting different fiscal paths as a result of particularities that tip the political, legal, or institutional balance one way or the other and then set in motion a line of fiscal development that is difficult to alter or reverse.

• A general observation that will emerge from this discussion is the malleability of fiscal ideologies and abstract fiscal principles. Ideological support for a general property tax, or for underlying notions such as uniformity and universality, should not be taken too seriously. Partisans deployed such concepts flexibly and opportunistically as part of a common vocabulary of the era. An examination of outcomes in particular states during the antebellum period will highlight this point, as will the larger history of the general property tax presented here and in subsequent chapters.

• Over the course of the antebellum period, the general property tax grew in substantive and ideological importance, and a new fiscal-political regime emerged. Some of the key characteristics of this regime were the following: political democratization; a shift in the locus of fiscal dynamism from the state level to the local level; an ideological movement in the understanding of the

fiscal affairs from republicanism to liberalism; and a strengthening of fiscal negativism.

Historiographic background: the myth of a simple fiscal past

As noted in the introduction to this section, "Progressive era" scholarship — loosely defined to run from the late 1880s to the early 1930s — occupies a critical position within fiscal historiography. This period witnessed not only the dawn of modern social science, but also an outpouring of research on fiscal and related institutional or administrative topics, notably for state and local government. Indeed, a quick survey of the contents of an important publication venue for such research (the *American Economic Review* and its predecessor journals) reveals a noteworthy interest in state-local fiscal history — a level of scholarly concern that has not been equaled since, at least in relative terms and, admittedly, by an impressionistic reckoning.[1] Above all else, these experts were preoccupied with the dominant fiscal concern of their day, namely a perceived crisis in a state-local fiscal system founded on the general property tax. To come to grips with this crisis, several Progressive scholars investigated the history of this fiscal system, traveling back to the early days of the American general property tax (approximately the 1830s) and even seeking additional historical context in the colonial period. In seeking insights from history relevant to their current concerns, however, these scholars frequently lapsed into what might be called the myth of a simple fiscal past.

A tax for simple agrarian times?

[1] See the table of contents of the *Publications of the American Economic Association* (1886-1907); *American Economic Association Quarterly* (1908-1910); and *American Economic Review* (1911-present). Also see the *Political Science Quarterly* (1886-present).

By their reckoning, the general property tax was in crisis because it was an unsuitable revenue instrument for the new economic and social complexities of an urbanizing, industrializing America. In spite of its lack of fit with current conditions, the general property was a thoroughly dominant revenue instrument, accounting for large shares of both state and local government revenue (recall Figures 12, 13, 15, 16). Perhaps falling into an unquestioning functionalism, these scholars tended to offer long-term historical generalizations built around a key contrast. On one hand was the simplicity of an agrarian political economy, with which the general property tax was said to fit in a nicely functional manner (and some of the tax's critics went farther, wondering whether the tax ever worked very well). On the other hand was the complexity of their own modernizing world, for which the general property tax seemed thoroughly dysfunctional. According to the typical reasoning, a general property tax works well — administratively, politically, economically, and ethically — when most wealth takes for the form of land (the Progressive-era scholars rarely discuss the other prominent form of antebellum agrarian wealth, slaves). But with socioeconomic complexity comes a host of new forms of wealth, most notably corporate and financial wealth, much of it intangible and not easily located for taxation. The result: a fiscal crisis undermining the very legitimacy of the political system.

This historical vision of the general property tax as a revenue instrument for simple times, and thus its utter failure in a complex political economy, is pervasive. It was commonplace in Progressive-era fiscal scholarship, to the point of being a background assumption that was rarely, if ever, questioned, even when it was contradicted by the details provided in otherwise useful studies.[2] The vision was also boilerplate in the parade of reports by state and local tax commissions, from the 1890s onward, that were charged with investigating and proposing remedies for a general property tax regime in

[2] Many examples could be cited, but for a particularly telling example of this phenomenon see Newcomer 1917.

crisis.[3] Indeed, this vision of the origins of the general property tax can be seen even in more recent treatments.[4]

The strength of the vision derives partly from sheer repetition. The Progressive-era scholars were the first to examine these fiscal subjects in the vein of modern social science. Their path-breaking work found its way into many blue-ribbon commissions charged with the task of fiscal reform. In fact, in some cases these experts served on such commissions or played influential roles in drafting new fiscal legislation — Edwin Seligman in New York, Carl Plehn in California, Thomas Adams in Wisconsin, and so forth. The reports of these commissions then became "primary sources" for more recent scholars seeking a little (but not too much) historical context for their own investigations into twentieth-century fiscal topics. This dissertation followed that research trajectory, beginning with an investigation of Michigan's Depression-era retail sales tax and essentially taking as a given the characterizations of the fiscal past offered by the state tax commissions and the Progressive-era experts.

The vision of the general property tax as a revenue instrument for simple times also derives strength from its basis in undeniable supporting evidence. It is true that the tax arose when the American political economy was more rural, agrarian, and even, one might say, simpler compared to the urban, industrial, and corporate society that emerged during the late nineteenth and early twentieth centuries. But these truths about socioeconomic change do not support the overarching historical view, which goes largely unquestioned under a set of functional assumptions. Two main flaws in this vision can be mentioned in general terms before proceeding to a detailed discussion.

First, the general property tax is not well characterized by describing it as a tax appropriate for simple agrarian times. Property taxation, broadly defined, is ancient;

[3] See, for example, Michigan. State Commission of Inquiry into Taxation 1930a, p. 7 and National Industrial Conference Board 1930c, p. 3-4.
[4] See, for example, Benson 1965.

however, the *general property tax* was a nineteenth-century innovation, a particularly American one at that. One does not find the general property tax in simple agrarian economies of the colonial period, for example (at least not a widespread and fully developed form of the tax). Far from being a tax for simple agrarian times, the general property tax emerged — not coincidentally, as will be seen — when the American economy was becoming more developed, more commercial, more complex. While land taxation conceivably could be viewed as somehow functionally appropriate for agrarian economies, the general property tax was explicitly *not* land taxation. What distinguishes the general property tax is the principle of taxing all property according to a general method — that is, according to market value. The historical irony is that just when socioeconomic change was starting to making these principles especially relevant — as new forms of wealth besides land (and slaves) were assuming major importance in the total portfolio — the general property tax came to be seen as inappropriate for the socioeconomic conditions.

The second major flaw in the traditional historical vision is that the general property tax did not arise through a historical process in which functionalist fit between the economy and the fisc was the only, or even the most immediate, force at work. Rather than beginning with an unexplored functionalism, in which the fisc responds in lockstep fashion to socioeconomic change (as in the traditional narrative going from a fiscal regime based on an agrarian economy to a fiscal regime in crisis as a result of socioeconomic modernization), it makes more sense to expect that the general property tax, as a fiscal-political instrument, emerged out of the fiscal and political problems of the day. In fact, a closer consideration reveals that the general property tax arose amid political conflict and controversial public purposes — anything but simple agrarian times. To say this is not to ignore the crucial connections between economic and fiscal changes; rather, it is to insist on the inherently political character of fiscal instruments.

A tax for democracy?

If the Progressive-era "myth of a simple fiscal past" represents a kind of unquestioned economic functionalism, the other plot line in the traditional story of the general property tax might be said to represent an unexamined cultural functionalism. Robin Einhorn has perceptively noted that a hazy "spirit of the age" interpretation often creeps into historical treatments of the general property tax.[5] Under such interpretations the principles of uniformity and universality are said to reflect conceptions of equality and democracy emerging in Jacksonian America. Richard Ely's influential study of state and local taxation — which was published in 1888 and served as a starting point for many subsequent investigations — characterized the evolution of tax policy as "the progress of democratic thought."[6] Edwin Seligman's widely-cited history of property taxation described the broadening of the property tax base, leading ultimately to the notion of general property taxation as "the manifestation of the ideas of equality and universality of taxation."[7]

To varying degrees, such notions find their way into most accounts of the tax's history. The most recent book-length treatment of the history of the property tax, published in 1996 by Glenn Fisher, is interesting in this respect because it seems to conclude that the shift to general property taxation is something of a mystery. Fisher is struck by the absence of precedents for the general property tax, as well as "the paucity of debate" over the ideas behind it — namely, the principles of uniformity and universality. He makes sense of this fiscal development by placing it within the context of antebellum political and economic battles between Jacksonian Democrats and market-oriented Whigs. Lacking a more explicit explanation for the tax's emergence, Fisher falls back on traditional paradigms and concludes that "the ideal of uniform taxation of all property was so much in the spirit of the times that it seemed self-evident. Uniform taxation of all

[5] Einhorn 2001.
[6] Ely and Finley 1888, p. 139.
[7] Seligman 1895, p. 37. The piece was originally published in the *Political Science Quarterly*; see Seligman 1890.

property appealed to the spirit of equality, which was a strong influence long after Jackson's Democratic party lost the presidency."[8] A recent article-length treatment of the tax's origins by John Wallis follows a similar course, loosely tying the fiscal changes of the 1840s to an emerging egalitarian sensibility.[9] In another essay, Wallis is more direct in connecting the general property tax's uniformity and universality provisions to such a sensibility: "the essential idea behind them was that the wealthy and the privileged escaped property taxation through unfair assessment (uniformity) and their ability to transform their wealth into untaxed assets (universality)."[10]

Certainly one should not lump all of these scholars into a single camp; their approaches and concerns differ, as does their reliance on older "spirit of the age" interpretations of the period. Nonetheless, Einhorn's complaint about the historiography seems on the mark.

Naturally, interpretations emphasizing the importance of big ideas would focus on the general property tax as expressed in big-idea documents (state constitutions), often to the neglect of actual tax practice as implemented by legislation, or as revealed by quantitative measures of fiscal performance. Traditional historical treatments of constitutional uniformity clauses, and of general property taxation more broadly, often show the influence of two major paradigms in Progressive historiography — namely:

> Charles Beard's idea that American politics consisted of struggles between "mercantile elitists" and "agrarian democrats" and Frederick Jackson Turner's idea that U.S. politics was shaped by a democratizing "frontier." ... The idea is that farmers objected to having their real estate bear the entire burden of state and local taxes, and therefore demanded that personalty [commercial wealth and intangible assets] be taxed uniformly with realty. Thus, it is argued, uniformity clauses were efforts to shift tax burdens from country to city, or, in the charged language of

[8] Fisher 1996b, quotes from p. 58 and 62.
[9] See Wallis 2001a, especially p. 137.
[10] Wallis 1997.

> the "progressive history" tradition, from embattled yeomen to wealthy merchants.[11]

The effect of the general property tax in some states may very well have been just that — namely, shifting the tax burden to more developed areas. Furthermore, where this happened, the effect was intended, though not necessarily for the reasons cited in "spirit of the age" interpretations.

The traditional interpretation is not devoid of seemingly supportive evidence. In particular, the colonial and Revolution-era battles over land taxation suggest a possible linkage between ad valorem taxation (a key component of the general property tax) and populist, democratic, or egalitarian politics. In abstract terms, such a linkage makes sense: barring unexpected administrative outcomes or other peculiar features, a shift from per-acre to ad valorem land taxation appears to work against the interests of elites owning large parcels of the best land. Similarly, the principle of universality (subjecting all property to taxation) would seem to be consistent with reform-minded efforts to eliminate the exemptions for undeveloped lands that had greatly favored the colonial landed elite. Becker's detailed account of colonial fiscal politics certainly provides reinforcement for these abstract considerations.

It might seem natural, therefore, for the political valences regarding ad valorem land taxation in the colonial period to carry forward into antebellum debates over general property taxation, suggesting an egalitarian or democratic heritage for the tax — a fiscal reform for the people. In fact, the story is more complicated, because the political and fiscal context had changed in important ways: to favor ad valorem land taxation in the colonial context was not the same as favoring the general property tax in the antebellum context. In addition, when analyzing the politics of general property taxation, we have to attend to some important distinctions — between regions and between the various aspects of the thing we call the "general property tax". The

[11] Einhorn 2001, p. 974.

emergence of general property taxation in the North was not necessarily the same political phenomenon as the emergence of general property taxation in the South. Similarly, general property taxation *as tax policy* and as general property taxation *as constitutional language* cannot be treated indiscriminately: they were related but ultimately different — in some cases very different — historical developments.[12]

As will be seen in the coming discussion, the story of the rise of general property taxation is not best told by confining oneself to constitutional language; nor by envisioning it as a frontier or agrarian phenomenon; nor by focusing solely on the distinction that most concerned Progressive-era scholars (realty versus commercial and intangible wealth); nor by noticing a potential abstract connection between political equality and fiscal universality, and then concluding that an ideological commitment to equality must have been the primary motivation behind the adoption of general property taxation. In fact, the history of the general property tax directly contradicts some of these assumptions, and a more careful retelling of the story grounds the tax firmly in the immediate economic and political concerns of the period, rather than in high-flown assumptions about a motivating spirit of equality. The general property tax regime and the fiscal environment leading up to it were anything but simple, anything but agrarian, anything but an exercise in "nineteenth-century idealism."[13]

Property taxation and the politics of internal improvements

The political stumbling block: geography

In order to understand the origins of this fiscal regime, it helps to begin by considering what was, during the era in which the tax arose, the most dynamic area of government activity at the state-local level — namely, "internal improvements," as they were called.

[12] This line of argument is also emphasized in Einhorn 2006.
[13] For the use of this phrase in a traditional account, see Benson 1965, p. 31-32 and 53.

As Carter Goodrich emphasized in his study of government promotion of canals and railroads, internal improvements should not be viewed merely through the language of modern economics as the provision of social overhead capital. Also important was the ideological component implied by the old term. "The works themselves were thought of not only as business enterprises but also as great civic undertakings."[14] Especially during the antebellum period, such projects are indicative of early American experiments in direct governmental action to promote economic development, contrary to overdrawn characterizations of the nineteenth-century polity as a minimal state. As John Larson argues, "the positive use of government power for popular constructive purposes, such as works of internal improvement, never was proscribed by American republicanism but lay well within the presumed legitimate authority of revolutionary governments."[15]

Although "internal improvements" could embrace a wide variety of projects, the most important in terms of economic, fiscal, and political impact were those dealing with transportation and financial infrastructure: roads, canals, railways, and banks. Such projects were the focus of governmental efforts to promote settlement and economic development within their jurisdictions, and they represent the social-infrastructure side of the most important economic changes underway during the period — namely, commercialization and market integration. Transportation projects hold a place of special importance not only because they represented the largest ventures, and not only because such projects were the principle means by which to connect agricultural producers to a market economy, but also because transportation was the largest category of government expenditure at what was arguably the most active level of sub-national government — the states (recall Figure 18).[16]

The promise of internal improvements — both as a policy tool in the promotion of economic development and as an experiment in the positive use of government

[14] Goodrich 1960, p. 3-4.
[15] Larson 2001, p. 3. See also Gunn 1988, p. 1 and 99-100.
[16] Holt 1977.

authority envisioned by revolutionary republicanism — was regularly frustrated by practical difficulties seemingly inherent in internal improvement projects. At both the national and state levels, the principle difficulty was the stumbling block most emblematic of nineteenth-century politics: geography. By their very nature, internal improvements distribute costs and benefits unevenly across the map, spawning sectional disagreements. The difficulty of achieving political consensus on large designs has been well-documented in the literature on nineteenth-century internal improvements.[17] After early national efforts — most famously the plan for roads and canals offered by Albert Gallatin in 1808 — foundered on the political rocks of geography, the field was occupied by state and local governments, which would account for the bulk of public resources devoted to internal improvement projects (the federal promotion of the transcontinental railroad being the noteworthy exception).[18]

Sketches of nineteenth-century internal improvements usually begin with the building of turnpikes, roadways whose tolls provided revenue for more extensive grading and maintenance than found on the common roads of the time. Turnpikes were typically built and operated by private corporations specifically chartered by state legislatures. For a variety of reasons, turnpikes were not particularly impressive as financial investments for their owners; nonetheless, turnpike building continued apace during the early part of the nineteenth century, in part because the stockholders — as land owners, merchants, or other business proprietors along the roadways — were engaged in a wider economic calculus.[19] The real benefits of turnpikes, from the perspective of both shareholders and the chartering legislatures, were *developmental* — that is, the indirect benefits of land appreciation and lower transportation costs, rather than just the profitability of the toll roadway itself.[20] It is not too difficult to imagine how these wider economic calculations could lead to the ideological context emphasized by

[17] Goodrich 1960; Larson 2001.
[18] Goodrich 1960, p. 266-71.
[19] Majewski 2000, p. 47; Atack and Passell 1994, p. 148-50; Ratner, Soltow, and Sylla 1993, p. 113-14.
[20] Majewski 2000, p. 8 and throughout.

Goodrich and others, in which internal improvement projects readily mingled business and civic concerns.

For the purposes of understanding the emergence of general property taxation, turnpikes are less important than the next two eras frequently identified in synopses of antebellum internal improvements — namely, those of canals and railroads. The magnitude of canal and railroad projects — often measured in the millions of dollars, rather than the thousands — resulted in a higher level of public involvement than typically found in turnpike building. For an economy still in early stages of commercial development, with capital scarce and interest rates relatively high, the American private sector was not in a position to provide sufficient capital to underwrite such large ventures. State governments, by contrast, had greater borrowing clout and were able to tap the capital markets of Europe.[21] As a result, the public sector would play a large role in the financing of antebellum internal improvements. For example, it accounted for nearly three-fourths of the investment in canal building.[22] Such projects represented huge organizational undertakings, with significant political, fiscal, and administrative implications for state governments. Many other types of state economic policy making during the nineteenth century did not require very much in the way of administrative effort: for example, land grants to corporations; banking regulation; a permissive legal environment regarding the use of water, timber, and other natural resources; or the extension of legal privileges and immunities, such as limited liability or even the power of eminent domain, to private entities. By contrast, in the area of internal improvements — especially canals, but sometimes railroads and banking — states pursued economic policy through the formation of "outright public enterprises".[23]

[21] Ratchford 1941, p. 82-3.
[22] Ratner, Soltow, and Sylla 1993, p. 118.
[23] Scheiber 1969, p. xv.

The cameralist ideal and the boom-bust cycle of internal improvements financing

These were big projects, and their implementation was necessarily accompanied by major fiscal changes. Before 1820 state expenditures and debts had been quite low, and the local government sector was not much larger. State governments in particular had to resort to very little direct taxation. Especially in the more developed areas, state governments had access to various types of investment or asset-related income: for example, revenue from the sale of public lands; funds from the earlier chartering of banks, which were usually required to give the state government a block of bank stock; or balances received from the federal government in 1795, which some states had invested. In his classic study of state debts, Benjamin Ratchford aptly summarized the politically convenient state of fiscal affairs: "evidently the states at this point were in a fair way to realize the Cameralist ideal — a situation in which the state derives a major part of its income from state-owned properties rather than from taxation."[24]

Beginning in the 1820s and gaining considerable momentum in the 1830s, the states increased their borrowing. In the 1820s this new borrowing was modest and confined to the older, more developed states. For example, New York — which built the most famous of the great canals, the Erie, from 1817 to 1825 — accounted for over half of state borrowing in the 1820-1825 period. In the 1830s, however, the pace of borrowing increased dramatically and it was spread across a greater number of states.[25]

In histories of antebellum internal improvements — whether in the field of canals, railroads, or banking — public authorities are frequently accused of a certain recklessness: borrowing too much too rapidly, even in the face of worsening economic and financial indications; initiating too many projects at one time, rather than establishing priorities; funding projects of dubious economic value; and exercising

[24] Ratchford 1941, p. 78.
[25] Ratchford 1941, p. 79.

insufficient custodial care in their financial and administrative dealings, in some cases to the point of allowing or even engaging in outright corruption. For example, the financial and developmental success of the Erie Canal is typically contrasted with a variety of misguided canal-building efforts that naively imagined that the Erie model could be readily copied, enriching both state economies and fiscs. The prima facie case for recklessness is to be found in the fiscal component of the financial and banking crisis of the late 1830s and early 1840s: nine states defaulted on all or part of their debts, and several others barely avoided default.[26] This charge against state governments, no doubt deserved in some cases and exaggerated in others, would have important fiscal-political consequences, as various political groups would campaign on reforms directly aimed at the supposed fiscal profligacy of prior leaders. Indeed, the boom-and-bust cycle has all of the makings of a fiscal morality tale, one that reinforced the fears of political corruption often noted in histories of republican thought.

Fears aside, the direct appeal of internal improvements was quite strong. As many historians have emphasized, state and local boosterism was a powerful force in the nineteenth-century political economy, to the point of undercutting the commonly understood positions of Democrats and Whigs regarding internal improvements at the national level. Even ordinary settlers in the American frontier experience were, in some sense, land speculators pinning their economic security and prosperity on rising property values that would accompany the extension of settlement and the thickening of economic networks. To such considerations one can add the "prominence of the realtor-promoter in frontier development," the politically influential role of merchant groups, and the natural interests of governments in promoting economic activity within their jurisdictions.[27] Above and beyond the direct appeal of internal improvements,

[26] The defaulting governments were Arkansas, Florida (a territory), Illinois, Indiana, Louisiana, Maryland, Michigan, Mississippi, and Pennsylvania; the close-calls were Alabama, New York, Ohio, and Tennessee. Not surprisingly, the defaulters were the states with the highest levels of per-capita debt (Wallis, Grinath, and Sylla 2003).
[27] Goodrich 1960, p. 278.

however, was their fiscal draw — specifically, that related to revenue structure. The cameralist fiscal motivations mentioned above were important:

> To the state official, borrowing offered the possibility of participating in larger financial operations, enlarging the permanent income of the state and freeing himself still further from the taxpayer. To the taxpayer it offered the prospect of the complete elimination of taxes.[28]

A fiscal free lunch of sorts. When the bottom fell out, the morality tale found its lesson in the notion the tab always comes due.

Differences among the states in the approach to internal improvements

It is helpful, however, to investigate the boom-and-bust cycle of antebellum internal improvements more closely in order to make sense of their place within American fiscal development. Such an investigation also provides a clearer understanding of public motivations, one more nuanced than the too-easy tale of recklessness and comeuppance. Two sets of distinctions are especially relevant to the cycle of antebellum internal improvements. The first distinction is among three general types of revenue that states had at their disposal. These revenue sources varied in terms of their political costliness. Specifically, in order from least to most costly, the revenue options were as follows.

- *Investment (or asset) income*: bank dividends; proceeds from the sale of public land; canal or road tolls; and other types of revenue based on government assets. Such revenues represented the cameralist ideal in pure form: tax-free governance.

[28] Ratchford 1941, p. 78-9.

• *Indirect taxes*: licenses, fees, fines, excises, duties, and various other taxes on businesses. Although taxes, these revenue sources had the political advantage of being a step removed from voters.

• *Direct taxes*: property, poll, and income-related taxes.

The second important distinction to be made is among the states, namely between the older, more commercially developed states in the east and the less developed states in the continent's interior. The former states had more favorable fiscal options: they were more likely to have at least some types of investment income within their revenue structure; given their greater level of commercial and business development, they had more room to exploit indirect taxation; and their new investments in transportation and banking infrastructure were more likely to attain short-term economic solvency than were similar investments in less developed regions.[29]

With these two distinctions in mind, the experiences of different states in the boom-and-bust cycle of internal improvements can be understood more fully. The more developed northeastern states had a long history of transportation investment. They would expand such investment after 1835 and would continue borrowing through the crises of the late 1830s and early 1840s — and beyond. Among the northeastern states, only Pennsylvania and Maryland defaulted. Their defaults were different than those in other states: the cause was political procrastination, an inability of the state's leaders to enact direct taxation (a property tax) with sufficient rapidity during the financial crisis. Once Pennsylvania and Maryland adopted such taxes, albeit a bit late, the states resumed payments on their debts.

[29] The importance of these two set of distinctions for this topic, along with the ensuing discussion of the state debt crisis, owes a great deal to Wallis, Grinath, and Sylla 1997, which has appeared in several draft forms, most recently an unpublished version supplied by Wallis in e-mail correspondence on such topics (Wallis, Grinath, and Sylla 2003). The recent versions of this essay provide greater detail for individual states, which complicates the admittedly schematic overview presented here.

The north-central states naturally had less experience with internal improvements, though they had invested to some extent in banking during the earlier period. Beginning in the 1830s they invested heavily in transportation projects. These states did not expect that their transportation investments would provide substantial revenues early on (for example, by 1841-1842, when the defaults would occur); rather, their plans were explicitly premised on rising land values and a growing property tax base. There had been a boom in public land sales during the 1830s, with most of the land due to enter the tax rolls five years after the date of sale. Transportation projects, by fostering economic activity, were intended to boost the value of this expanded tax base. Thus, it is somewhat unfair to accuse these states of fiscal naiveté, either for supposedly thinking that they could readily transplant the Erie model to the frontier, or for envisioning some sort of fiscal free lunch in the form of a rapid transition to tax-free governance. At least in the short term, the main fiscal benefits of internal improvements were to come through an expanded property tax base, although long-term visions of a shift toward cameralist tax-free finance were no doubt contemplated and promised. When the financial crisis hit and the banking sector collapsed, state governments were forced to halt ongoing projects, which brought the land boom to an abrupt end. Thus, the key to the fiscal crisis in the north-central states was the collapse of land values, undermining the property tax base. In most of these cases, the defaulting states entered into negotiations with creditors, eventually resuming payments.

The southern states present a third variant in the boom-and-bust cycle. The internal improvement efforts of southern state governments had been focused more heavily on banking. Unlike the strategy of north-central states, premised on an expanded property tax base, the southern states never intended that direct taxation be used to service their debts. Rather, the financial arrangement among the several parties — state government, chartered bank, creditors, and other investors — was typically structured so that the bank would service the state-backed bonds by using the state's share of the anticipated bank dividends (state governments frequently held stock in the banks that

they chartered). If any of the state's dividend income remained after the state bonds had been serviced, the residual was to go to state coffers — an initial step toward cameralist finance. When those dividends disappeared with the banking collapse, southern state governments repudiated the debts, pointing with some legitimacy to the connivance and dubious legality of the financial arrangements. The anti-banking stream in Jacksonian politics no doubt emerged forcefully in the debates over repudiation. If these insider deals had gone according to plan — that is, in a way beneficial to the fisc — they would have survived the political test. But once the investments soured, leaving taxpayers to honor the obligations, the political system refused to go along, and the debts were repudiated.[30]

The foregoing discussion illustrates one of the key connections between fiscal structure and the boom-and-bust cycle of antebellum internal improvements. Depending on their fiscal structure, states envisioned different courses for their internal improvement programs. Similarly, when these plans were thrown into disarray by economic, financial, and ultimately fiscal crisis in the late 1830s and early 1840s, state political systems reacted differently. While noteworthy differences can be found all the way down to the level of individual states, a rough distinction can be drawn. The more developed states that were facing trouble had options and remaining fiscal leeway: they could resort to additional direct taxation in order to bridge the revenue gap. In such cases, temporary defaults occurred when the political system was unable to respond rapidly enough to fiscal stress. Meanwhile, less developed states in the nation's interior were already exploiting direct taxation at or near politically sustainable levels. They responded to the crisis through default, renegotiation, and repudiation.

Ad valorem taxation as a political solution

[30] Also see Monkkonen 1995 for an investigation of the politics of repudiation, in this case focused on local government.

Another connection between fiscal structure and internal improvement programs can be seen by taking a step backwards, returning to the chief political stumbling block for internal improvements — namely, sectional conflict. A persistent theme in the historiography is the way in which political geography frustrated efforts to achieve consensus on internal improvement programs.[31] A focal point for conflict was route selection, which necessarily bypassed certain locales while bringing others into closer contact with an emerging commercial network. In several states that have been closely studied, fiscal revision was one of the keys to achieving political accord on a transportation program. For example, Harry Scheiber's examination of the formation of canal policy in Ohio emphasizes "the shrewd linking of the canal bill with a tax reform that promised to throw a large part of the state's financial burden upon the localities that would benefit from canal construction."[32] In his study of internal improvements in Indiana, John Wallis demonstrates how the state modified its property tax in order to better align geographic costs and benefits. Specifically, this alignment was achieved through one of the core features of the general property tax — namely, ad valorem land taxation. As part of the political process of developing internal improvement programs, such states shifted from per-acre to ad valorem taxation. In the thinking of state legislatures, local boosters, and even individual investors, one of the chief benefits of transportation projects was rising land values. The linkage of these projects to ad valorem taxation partially alleviated some of the geographically-based grievances. While the canal might not flow through every county, at least the bypassed regions would foot a smaller share of the bill. Wallis' analysis of property values and tax revenues in Indiana during the late 1830s and early 1840s suggests that this political compromise worked as intended, at least in broad terms.

[31] For Indiana, see Wallis 2001b; for Ohio, see Scheiber 1969; for Pennsylvania and Virginia, see Majewski 2000; for New York, see Gunn 1988; and for more wide ranging treatments, see Larson 2001, Goodrich 1960, and Wallis 2001a.

[32] Scheiber 1969, p. 29-30. Also see Gunn 1988, p. 115-16, which describes the linkage between canal and tax policy in New York — in this case, an additional tax on real estate located along the canal route (apparently never collected), along with certain other taxes intended to localize the canal's costs.

> Ex ante, counties that expected to realize large gains in property values because of canal and railroad construction were the same counties that, ex post, not only paid higher taxes [because of the shift to ad valorem taxation] but realized greater gains in land values. However we segregate the counties, land values rose disproportionately in internal improvement counties between 1835 and 1837, and fell disproportionately between 1837 and 1842 [when financial collapse meant that many of the projects would not be completed].[33]

This fiscal arrangement shifted the costs of active government promotion of economic development to more developed areas — or areas that soon would become more developed. On one level, then, there was a shift in the tax burden roughly along the lines of the country-city, Democrat-Whig conflict envisioned by traditional accounts of "Jacksonian democracy." From a different angle, however, this fiscal transformation has very little of the flavor of a redistributive battle over tax burdens between "mercantile elitists" and "agrarian democrats." Rather, the shift to ad valorem land taxation seems more like a political bargain driven by pragmatic boosterism — a means of achieving the sufficient political agreement on programs that unavoidably dispersed benefits unequally across space. The promoters of ad valorem taxation appear to have been not so much "agrarian democrats" trying to sock it to the towns, but rather pro-development interests casting about for a means of achieving the required political consensus (not to mention revenue) for their projects.[34]

Admittedly, such observations are speculative: the existing fiscal historiography has not penetrated deeply enough into the realm of case study to flesh out such political and ideological detail; meanwhile, the extensive literature on antebellum political conflict at the state and local levels has not made the fisc a primary concern. Nonetheless, one impression emerging from this literature is that the heated partisan rhetoric dividing the parties at the national level did not translate so directly to economic policy-making at lower levels of government. Richard L. McCormick emphasizes a common point when he

[33] Wallis 2001b, p. 18.
[34] In addition to sources already noted, see Labovitz 1936, p. 12.

writes that "especially at the state and local levels, Democrats as well as Whigs and Republicans granted charters, aided transportation companies, and sought tariff protection for local industries."[35]

Grand partisan debates in the national arena were one thing, but when it came to the politics of home-state improvements, one suspects that localism and boosterism were compelling forces. At least in some states — Ohio, Indiana, Illinois, and perhaps others — ad valorem land taxation was a fiscal reform that allowed projects to move forward precisely because it alleviated the discord inherent in this brand of local politics.

Redistributive politics: the case of the South

To note the strong presence of a pragmatic boosterism that tended to blur partisan distinctions, however, is not to deny the possibility that the shift to ad valorem taxation involved fundamental redistributive battles over tax burdens. Indeed, one expects such battles. The shift from per-acre to ad valorem land taxation — or, more broadly, from a quantity-based, classified property tax regime to a general property tax — is a big one, potentially involving an assortment of winners and losers. It would be surprising if such matters were not hotly contested and, in fact, they were. Historiography on the southern states, more so than the literature dealing with the North, has revealed some of the contours of such redistributive conflicts.[36]

[35] McCormick 1986, p. 210.

[36] The ensuing discussion of the southern states is based mainly on Thornton 1982; Wallenstein 1985; Wallenstein 1987; and Einhorn 2001. Also see Woolfolk 1960, which offers an interpretation of ad valorem taxation in which the proponents and opponents are completely reversed. Woolfolk's presentation seems less persuasive, both on intuitive and evidentiary grounds. Note also that these studies focus on state governments. The fiscal instrument under discussion — the emerging general property tax — was shared by both state and local governments; therefore, one suspects that many of these observations apply generally to the state-local fisc. Nonetheless, more detail on local government might alter our understanding of these matters, and the state-specific limitation of our current knowledge should not be forgotten.

The importance of wealth structure and historical timing

As noted previously, an important share of government revenue in the southern states came from taxes on slaves, both as polls and as property. For example, taxes on slaves accounted for 30 to 60 percent of state revenue in the Lower South, depending on the state and time period in question. The structural significance of slavery is rarely appreciated in traditional accounts of the origins of the general property tax. Progressive-era students of taxation focused a great deal of attention on the distinction between real and personal property. The inability to tax the latter in a fair and efficient manner was said to be the critical flaw in the general property tax regime, according to their analyses. In their own time, intangibles were of greatest concern — various forms of corporate or financial wealth that had become more important and that were difficult to locate, assess, and tax under the existing, highly localized, system of fiscal administration. Yet when these fiscal scholars examined the history of the general property tax, almost universally they ignored or simply glossed over one of the most important types of personal property in the antebellum economy: slaves. According to Census estimates for 1860, wealth in the form of slaves accounted for a bit less than 40 percent of personal property in the United States (see Table 7). In the South, of course, this figure was considerably higher: about 54 percent in the Upper South and 70 percent in the Lower South. Slavery also had a considerable impact on the relative balance between real and personal property. In the North, personal property accounted for approximately one-third of total property wealth. This was still an economy dominated by real estate wealth. Meanwhile, the southern wealth portfolio was quite different: the majority of it was personal property. Indeed, in the Lower South the wealth mix was a complex reversal of the realty-personalty ratio found in the North: two-thirds of property was personal, with most of it (70 percent) literally taking the form of persons.

These differences are striking, particularly in light of the emphasis of Progressive-era scholars on the distinction between realty and personalty. If the general property tax demands that all property be taxed according to universal principles, one might expect

that the political battles would have been especially sharp in the South. After all, this was the region where the expansion of property taxation, on an ad valorem basis, to embrace not merely realty but also personalty could have conceivably had the biggest fiscal impact.

The chronology of the general property tax supports this line of reasoning. It is important to be careful here in distinguishing one thing from another. The property tax, broadly defined, is an old fiscal device, and in the American experience one can find noteworthy precursors for general property taxation well before the antebellum period. As noted in the discussion of colonial taxation, the New England colonies in particular had developed rather encompassing systems of property taxation that extended beyond mere real estate taxes. These systems did not have the rhetorical trappings of what would become the general property tax of the antebellum period — in particular, the constitutional requirements for uniformity and universality. Nonetheless, it seems true to say that the first phase in the story of the general property tax is found during the colonial and early national periods as northeastern colonies or states developed — via statute rather than constitutional language — more expansive and sophisticated property tax systems. A continuation of these base-broadening trends can be seen throughout the North during the 1820s and 1830s as states anxious to promote internal improvements turned to ad valorem land taxation — one component of what would become general property taxation. Also, some southern states had moved in the direction of ad valorem land taxation, either for reasons similar to those outlined above for states like Ohio or Indiana, or as part of the Revolution-era political conflicts over tax burdens. But when it comes to nineteenth-century battles fought explicitly over the general property tax — including the hallmarks of constitutional requirements for uniformity and universality — the story begins with the slave states. Through 1845, eight state constitutional uniformity clauses were adopted, all of them in the South except for Illinois, which was virtually a slave state when it adopted its first constitution

in 1818, which included a uniformity requirement. Not until the late 1840s would the constitutional trend turn northward.[37]

This chronology — with the first battles over a full-blown general property tax being waged and won in the South — is exactly what the regional differences in realty-personalty ratios would have predicted. As the ensuing discussion will indicate, the battle lines were not at all what a progressive account of "Jacksonian democracy" might expect, which perhaps helps to explain why fiscal scholars from this historiographic era were so blind to the structural and political importance of slavery.

The political positions of different wealth groups on property tax reform

As noted already, the slave-owning elite carried a large share of the total tax burden in the South. This fact reflects not so much fiscal progressivity as the high degree of inequality in the southern wealth distribution. By itself, the high proportion of taxes paid by slave owners was not necessarily a motivation for fiscal agitation; however, there were other concerns. One was a growing mismatch between tax burdens and property values, an inherent problem in any property tax regime, but especially one based on the "colonial" pattern in which property was classified into broad categories and then taxed at fixed, quantity-based rates (per acre, per head, and so forth). This mismatch was especially pronounced in the older states. Even in states where assessment methods might have been more systematic, where the fit between burdens and property values was better, and perhaps where land was taxed, in whole or in part, on an ad valorem basis, the fiscal systems contained discriminatory distinctions as well as a certain roughness. Assessment accuracy aside, what all states had in common was a considerable undervaluation of land; moreover, rural land was taxed much less onerously than urban land.

[37] See Einhorn 2001, p. 980, for a chronology of state constitutional uniformity clauses; also see Einhorn 2006, p. 209 and chapter 6 generally. More extensive detail on this topic can be found in Newhouse 1984.

One result was that slave holders and urban propertied interests increasingly complained that their wealth was being taxed disproportionately. Beginning in the 1840s these groups would lobby for fiscal reform — an ad valorem general property tax.

The position of ordinary farmers with respect to this fiscal reform appears to have changed somewhat since the colonial period. Recall that the colonial system of land taxation had conferred considerable benefits upon the owners of the best and largest tracts of land, both because of the per-acre basis and because unimproved lands were often exempted. On balance, the fiscal system favored the landed elite. The reforms won in some southern states during the Revolution and early national period appear to have spread some of these advantages more generally among all rural land owners. This development makes intuitive sense, given the more democratic political arrangements that had been achieved since the Revolution. By the antebellum period, then, the perspective of typical small land owners was different than it had been during the colonial period. The favoritism of the property tax system now worked to their advantage: their holdings were generally undervalued and undertaxed, especially when compared to urban land. They were not inclined to change the system. It would be a mistake, therefore, to assume that yeoman support for ad valorem *land* taxation during the Revolution would translate directly to support for *general* property taxation in the antebellum period. The political and fiscal context had changed. As a result, antebellum tax battles in the South typically pitted black-belt and urban Whigs against upcountry Democrats, and such battles "became a principal testing ground for the emerging political power of the planters."[38]

The irony of the general property tax as a revenue workhorse

[38] Thornton 1982, p. 356.

To such considerations one can add a second motivation behind the push for ad valorem taxation, one common to both North and South — namely, the tax's promise as a revenue generator. With dual irony, this aspect of the origins of the general property tax has tended to go by the wayside.

The first irony is historiographic. As noted previously, traditional accounts characterize the general property tax both as a product of simpler agrarian times and as a reflection of expanding conceptions of equality and democracy. Yet the Progressive-era scholars who offered such themes revealed in the details of their historical studies a rather different set of forces at work. They noted, for example, that the general property tax was part of a long-term trend toward base broadening — that is, expanding the types of property subject to taxation. Fiscal structures roughly resembling a general property tax began to appear during the late eighteenth and early nineteenth centuries in New England. The descriptions given earlier of the New England faculty tax — as an encompassing mixture of poll, property, and quasi-income taxation — hint at precisely this sort of movement toward a more broadly based property tax. Elements of general property taxation appeared later in the states of the Midwest, Middle Atlantic, and South — in many cases, closely associated with more active government efforts to fund internal improvements. In the emergence of the general property tax, then, one of the chief motivating factors was the growing revenue appetite of state governments. For some reason, however, revenue growth is underplayed in traditional accounts of the general property tax: this motivation might find its way into the detailed discussion, but almost never is it highlighted in the main summations, and in many cases it disappears altogether.[39] It is tempting to speculate on the reasons for such historiographic tendencies. A possible clue can be found by noting that most fiscal experts during the late nineteenth and early twentieth centuries perceived the general property tax as woefully inadequate to fund the needs of state and local government in a modern economy. A big part of the problem was the tax's inability to tap corporate and financial

[39] For a helpful source and an example of the historiographic points raised here, see Newcomer 1917, Chapter I.

wealth — the problem of "intangibles." From the perspective of such expert-reformers, then, the general property tax was anything but a revenue workhorse. In a context where they perceived that state-local governance was straight-jacketed by an outmoded fiscal device, with vital public functions going unfulfilled, these experts gravitated toward broad historical generalizations that emphasized the tax's anachronism, downplaying its connections to state activism and revenue sophistication.

The second irony is historical. Although motivated by growing revenue demands, the general property tax was often praised for its ability to check public extravagance. It is, after all, a direct tax, one painfully obvious to the voting public. Moreover, its features of uniformity and universality were touted as checks against the unscrupulous fiscal strategy of focusing tax increases on narrow groups, thus financing government growth without having to earn broad popular acceptance of higher tax burdens. In the longer view, such observations may very well have been true. The Progressive-era fiscal experts certainly would have testified to the restraining power that the general property tax exerted over the state-local fisc. Nonetheless, as a matter of historical development, ad valorem land taxation and the general property tax were often expansive fiscal reforms, tending to increase government revenue relative to the amounts raised under older systems. That was a chief part of the appeal to antebellum fiscal reformers and project promoters.

Political cleavages over the general property tax

In the case of planters and urban property owners, the two motivations combined. On the one hand were concerns that the existing tax system discriminated against their property — slaves and urban real estate. On the other hand, these commercially oriented groups tended to favor more active internal improvement policies. As Thornton writes about states in the Deep South, proponents of the general property tax had two things working for them.

> The first was the seeming justice of their complaint. The second was that a great many of the young politicians of the 1850s desired their states to adopt social-welfare and internal-improvements schemes. Given the failure of many of the sources of nontax revenue after the panic of 1837, such schemes were feasible only if the state tax receipts could be greatly increased; the general property tax gave promise of doing precisely that.[40]

At least in the South, the movement for the general property tax combined redistributive and booster politics with government activism.

Quite often, though not necessarily in every case, the redistributive and booster dynamics worked to create consistent political cleavages. Research over the past few decades on nineteenth-century politics has enriched our understanding of partisan identification, taking it beyond overdrawn interpretations emphasizing the "masses" versus "classes." Political allegiances did not always line up neatly with socioeconomic status or economic interests. In fact, some of the most significant correlates of voting behavior were the ethnic, religious, and communal identifications of citizens, focused on an assortment of cultural and highly symbolic issues, such as prohibition, sabbatarianism, nativism, and English language instruction. Nineteenth-century parties have been described as "'political churches' mobilized around diametrically opposed reactions to the 'strident Yankee moralism' of pietistic Protestants." The pietists wished to eliminate sin from, or to cultivate virtue in, themselves and their society, and they were not averse to using the state to achieve such goals. The Whig and Republican parties were the electoral vehicles for such crusades, with support coming mainly from native Protestants or immigrant Protestants with a similar orientation.

> Arrayed against these cultural imperialists was a Democratic coalition of the targets of pietistic wrath: slaveholders and later most white southerners, Catholics, nonpietistic Protestant immigrants (especially

[40] Thornton 1982, p. 356.

> ritualists, mainly German Lutherans, whose attitudes to state regulation of personal behavior were similar to those of Catholics), drinkers, and the wider urban subcultures of plebian sensual pleasures. Personal liberty, the Democratic watchword, suggests how this diverse coalition was held together by common resistance to the pietistic cultural police. Immigrant and Catholic businessmen were just as ready as their working-class neighbors to man Democratic barricades of cultural defense.[41]

Such political patterns arose out of the associational life found in ethnically segregated residential patterns. Certain institutional features of nineteenth-century politics — such as public voting with straight-ticket party ballots — served to reinforce the tendency for electoral behavior to cluster along ethnocultural, community, and perhaps even neighborhood lines.

That said, some of the most compelling interpretations of nineteenth-century politics have been those that do not force a choice between socioeconomic or ethnocultural explanations for political allegiance, but instead suggest ways in which these factors interacted.[42] On one hand, parties were not the direct representations of class interests that Progressive historians studying the Jacksonian period had envisioned; it is true that religion, for example, was an important correlate of party identification. On the other hand, "as the history of revivalism makes clear, ... church affiliation was itself a reflection of class standing and aspiration, so that cultural and economic concerns were closely intertwined in the creation of party loyalties." Those areas most closely linked to the emerging commercial marketplace tended to support the Whigs — support that went across class lines. Meanwhile, those areas somewhat outside the scope of the market and perhaps beginning to see it as a threat (such as relatively isolated yeomen farming communities) or those groups in society clearly under stress from emerging market conditions (such as urban wage earners) tended to support Democrats.[43]

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[41] Both quotes from Oestreicher 1988, p. 1262.
[42] For an example of such interactions, see Johnson 1978. For helpful introductions to the literature on nineteenth-century politics, see McCormick 1986; Watson 1990; Daniel Feller 1990; Silbey 1991; Kornbluh 2000.
[43] Watson 1990, p. 186, 236, and elsewhere.

The major economic transformations underway tended to exert influence geographically, impacting entire locales or regions within a state as market connections thickened. As a result, communal or ethnocultural bonds — which themselves had a strong geographical component — could interact closely with perceptions of socioeconomic change. In couching their political appeals, the parties drew upon both ethnocultural language and a common republican political heritage to offer different policy responses to the changing social and economic conditions.

Jacksonian Democrats emphasized that a republic required a virtuous and independent citizenry. Republican virtue — a civic-minded concern for the common good — could thrive only under favorable economic conditions, in which citizens were free from the will of others; hence the importance of widespread land ownership and independent craftsmanship in this political vision. Jacksonian Democrats "tended to view history as an eternal struggle between the many and the few, between the liberty of the virtuous and productive majority and the power of a wicked and greedy minority that sought to exploit them."[44] The emerging commercial market, in creating new concentrations of wealth, threatened to corrupt the polity and create permanent inequalities in society. Unlike later variants of populist politics, the Jacksonians did not look to government to aid the majority. To the contrary, in their political economy the threatening economic developments were coming via state sponsorship (special corporate charters, state-promoted banks, state-owned canals, and publicly sponsored railroads). Their attitude toward the state, therefore, was frequently a negative or defensive one. Related to this attitude was the persistent theme in Jacksonian rhetoric of "equal rights" (subject to the racial and gender assumptions underlying the nineteenth-century conception of citizenship). Equal rights was an idea that could be expressed along a variety of dimensions: cultural, as in resistance to prohibition or other forms of cultural control; economic, as in a preference for general incorporation laws over special incorporation

[44] Watson 1990, p. 238.

by the legislature; or sectional, as in preserving the South's right to maintain local institutions free from outside interference.

The rhetoric of equal rights, however, was sufficiently malleable to allow its deployment by a variety of political groups. For example, in traditional accounts, the general property tax — especially its manifestations in constitutional requirements for uniformity and universality — has been linked to a spirit of egalitarianism characteristic of the era's political culture. Yet consider the promoters of ad valorem taxation: planters and urban property owners, who felt that their property was overtaxed; or commercially oriented groups that were eager to use government for pro-development purposes and that saw in ad valorem taxation both an expanded revenue base and a means for achieving political consensus on transportation policy. This cast of characters is hardly consistent with an interpretation that leans heavily on an animating spirit of equality. Certainly, an egalitarian language was prevalent during the antebellum period, but this language — like republicanism itself — was flexible enough to be marshaled for a variety of purposes.

Indeed, although they achieved their party-building successes a bit later than the Democrats, Whig competitiveness in the electoral arena was directly linked to the party's ability to shed some of its elitist associations and instead offer an organic vision of society in which a rising economic tide would life all boats. This organic vision denied any fundamental incompatibility between different economic classes, embracing a wide definition of the "producing classes" to include even lawyers, bankers, and merchants. The vision also insisted that frugality and hard work within an emerging marketplace — republican virtue of a different flavor — would provide widespread benefits.

> As the [presidential] campaign of 1840 showed, ... Whigs could democratize their doctrine by promising ordinary voters a wider diffusion of prosperity as a result of Whig measures such as the tariff or a sound credit system. In democratic Whig parlance, the true aristocrats were the spoilsmen who would monopolize the privileges of office for themselves

> and their corrupted henchmen, not the entrepreneurs who opened the benefits of the Market Revolution to everyone.[45]

In contrast to the negative view of the state offered by Democrats, Whigs were more likely to favor the use of government resources to promote development in a capital-scarce economy. The Whigs were the party of "improvement," both in terms of infrastructure (banks, canals, railroads, hospitals, prisons, schools) and in terms of moral uplift (temperance, missionary societies, sabbatarianism, antislavery).

As noted previously, these general distinctions between the parties did not always hold firm at the level of state and local politics, where boosters eager to use government for pro-developmental purposes could be found in both camps. Nonetheless, the historiography on antebellum state politics still finds that attitudes toward the emerging commercial economy were an important determinant of partisan identification. Yeomen farmers, for example, had a variety of reasons to be apprehensive about the market economy. Although it offered the chance for economic advancement, it also posed certain risks. Especially in southern agriculture, farmers faced a difficult choice between safety-first farming (in which a greater share of land and labor were devoted to subsistence food crops, such as corn) and commercial orientation (in which market crops, such as tobacco and later cotton, were given priority). This dilemma was less pressing in the North, where the cash crops, notably wheat, could also provide family subsistence if market conditions soured.[46] What farmers North and South had in common, however, was their fiscal relationship to the emerging market economy. The projects bringing the marketplace to their doorsteps — turnpikes, canals, railroads, and banks — were being promoted, subsidized, or even funded outright by property tax revenues, which directly impacted a famer's prime strategy for economic security and advancement, namely land ownership. Such programs could be especially threatening if they included fiscal reform that tended to erode one of their principle advantages under

[45] Watson 1990, p. 247.
[46] For an excellent treatment of this dilemma, see Wright 1978.

the old tax regime — specifically, the significant under-valuation and under-taxation of rural land.

In the South — and possibly in the North, though it is not emphasized in the existing historiography — political battles over the general property tax were linked to another matter of vital importance: legislative apportionment. Quite often the constitutional conventions where uniformity and universality clauses would be adopted were the scene of even more fundamental negotiation over apportionment — nineteenth-century political conflict along geographic lines yet again. Such battles concerned themselves with the balance of power between plantation and yeoman farming regions, or between urban and rural areas. The outcomes were particularly affected by the methods used to count slaves in a population-based apportionment. Representatives from slaveholding regions regularly expressed the fear that an unfavorable apportionment would worsen the fiscal problem that they already perceived, namely the relative over-taxation of slave wealth. In such debates, uniformity requirements were couched as an assurance that no "species of property" would be taxed unfairly.[47]

Here again we see how the traditional historiographic linkage between the general property tax and an egalitarian spirit of the age has made unwarranted leaps. The political context for such constitutional conventions roughly fits with traditional notions of "Jacksonian democracy" at work. Older apportionment rules had often favored more developed regions within southern states. Amid a new type of politics in which most free adult males were active electoral participants, the calls for constitutional revision and reapportionment to adjust such inequities seem to suggest that a brand of political egalitarianism was in play. Uniformity and universality provisions adopted during these conventions were assumed, without much examination, to be products of such an egalitarian spirit. In fact, the most recent historiography of antebellum fiscal politics in the South suggests just the opposite. Rather than being all of a piece — an expanded

[47] See Einhorn 2001, which notes that this telling phrase appeared in four uniformity clauses adopted during the antebellum period.

suffrage, more equitable apportionment methods, and universalist fiscal devices — the general property tax appears to have been viewed in such political negotiations as a *counterweight against democratic excess*. As Einhorn puts it, "when yeomen demanded reapportionments, slaveholders demanded security" — in the form of the general property tax.[48]

It is also worth mentioning that the poll tax was frequently intertwined with southern debates over ad valorem taxation. On one hand, such interconnections were a natural outcome of political negotiations between contending economic groups over the balance of tax burdens between "property" and "labor." The southern situation, however, contained an added wrinkle: a large share of the poll tax was imposed on slaves and thus was paid by slave owners. This component of the southern poll tax is difficult to distinguish from the various other per-item property taxes — the "item" in this case being a slave.

Political outcomes among various states

The outcome of such political battles — over reapportionment, over the general property tax, and over the poll tax — depended very much on particular political configurations within individual states. Even though the main purpose here is to identify some broad themes, the variety of outcomes across different states is worth examining briefly, as a way to emphasize three themes that should not be forgotten during any overview of the nineteenth-century fisc: the first is the diversity of particular outcomes across the states; the second is the rarity and short-lived character of anything approaching a pure form of the general property tax; and the third is the flexible and perhaps even opportunistic way that the ideals of the general property tax were promoted or ignored, depending on the wider political context.

[48] Einhorn 2001, p. 999. Also see Einhorn 2006, p. 202-3 and Part III generally.

In some states, planters achieved rather clear-cut political victories. Louisiana, for example, adopted a general property tax as part of constitutional revisions in the mid-1840s. Ten years later, slaves were explicitly removed from the ad valorem system and instead were taxed according to a scheme of fixed rates that varied by age. Both reforms were apparently championed by planter interests. Along similar lines, Alabama (1847) and Mississippi (1850) adopted halfway ad valorem systems that taxed land according to value while retaining specific quantity-based rates for other types of property, including slaves. In all three of these states, taxes on slaves declined as a share of total state revenue.

Meanwhile, outcomes in other states were somewhat mixed for planters. Georgia provides an interesting case. Having debated the fiscal reform for more than a decade, the state adopted an inclusive ad valorem tax in 1852. But there was a catch: assessment was to be performed by property owners. As a result, Georgia's shift to ad valorem taxation increased receipts in the short term by only about one-third, which was considerably less than the revenue boost in states like Louisiana and Florida. Throughout Georgia's antebellum tax battles, "the main struggle was between black-belt Whigs and upcountry Democrats," with urban Whigs ultimately playing a key role in tipping the balance in favor of ad valorem taxation.[49] The general political patterns described by Thornton are confirmed in Peter Wallenstein's in-depth examination of Georgia fiscal politics during the antebellum period:

> Most Whig legislators came from commercially oriented districts — black belt and urban, planter and merchant. Democrats came mostly from predominantly white, subsistence farming districts. Urban Whigs favored appropriating larger amounts for internal improvements, and they sought to remove the tax inequities against town property and to shift more of the tax burden to rural property. Democrats, too, tried to translate their interests into tax policy. Whenever it became clear that more public revenue had to be gathered, they attempted to derive it from slaves,

[49] Wallenstein 1985, p. 472.

> railroad stocks, income, and other property of the wealth. Democrats sought and Whigs opposed cuts in poll taxes.[50]

Such political battles in Georgia were fairly evenly matched in the 1840s; however, the brewing sectional crisis in national politics led to a reorientation of politics at the state level. The rise of secessionist elements in the Democratic party left traditionally pro-Union small farmers without a comfortable political home. As a result, several districts that typically voted Democrat sent former Whigs to the statehouse in the 1850s, under a Constitutional Unionist party label. Such changes were enough to tip the political balance in favor of ad valorem taxation. The fiscal effect on different economic sectors are not entirely clear, but Wallenstein offers some suggestive evidence for the following: the relative tax burden on rural land increased, while it decreased on town lots. Meanwhile, plantation owners received a mixed outcome: the share of state property taxes coming from slaves declined, but the higher relative burden on rural land probably counterbalanced this effect. Finally, although urban land owners clearly benefited from the shifting tax burdens, the ad valorem tax did lead to a larger share of property tax revenues from various intangibles (money and solvent debts), suggesting a mixed outcome for at least some urban-commercial interests. Over the long term, however, Robin Einhorn may be correct that such interests were big winners because they proved quite able to evade the general property tax on intangible wealth — an important theme to be explored later.

During the antebellum period, southern elites appear to have won more fiscal battles than they lost, though the victories were never uncontested or unqualified.

> The antebellum tax wars give clear evidence of the most important — and the least noted — single development in the political history of the time: the rise of planter political power during the final decade of the antebellum period. ... Nor, of course, do the new tax systems adopted after 1847 indicate that planters were now able to dominate their

[50] Wallenstein 1985, p. 462.

> political world. Rather, they indicate that nonslaveholders were still able to give planters a substantial battle.[51]

Although the finding needs a more rigorous quantitative backing, the impression from recent histories of southern fiscal affairs is that taxes on slaves (one measure of planter political strength) became a smaller share of state revenues; nonetheless, they remained principal revenue sources.

Not every southern state experienced strong lobbying from planter and urban interests for general property taxation. South Carolina was one example. Backcountry landowners paid very low taxes and were not inclined to change things. Slave owners, meanwhile, paid the lion's share of taxes but they received a direct political benefit, because representation in the state's house was determined partly by a district's population and partly by its tax payments. This case reiterates the point raised above, namely that fiscal reform was one part of a larger political negotiation within states. The southern promoters of general property taxation viewed it within a wider political context. As long as political apportionment rules were not threatening, southern slave owners were not particularly anxious to lobby for change.

Indeed, the example of Louisiana, noted above, illustrates that plantation interests were not wedded to the general principle anyway. In that state, the first planter victory was in passing ad valorem taxation; the second was in exempting their own property from the system's strict rules. In fact, as of the start of the Civil War, Florida would be the only Deep South state to have in place an ad valorem system of taxing slave property; the others ended up with partial systems of one sort or another. Ironically, the effect in Florida was to increase the proportion of state revenue derived from slave property.[52] Plantation interests generally supported general property taxation — but only so far. It was fine as a defensive fiscal mechanism in a political context where more egalitarian

[51] Thornton 1982, p. 360.
[52] Thornton 1982, p. 358.

apportionment rules seemed to threaten higher taxes on slave property. But when it came to applying universal tax principles to their own wealth, slave owners were quite prepared to step to the front of the line for special exemption from the ad valorem system — one that, in pure form, is an unforgiving tax for wealth holders.

The South in historical and regional perspective

On a larger time scale, the dynamic seen in Louisiana — with planters immediately undoing the universality of their own fiscal reform — might be viewed as a microcosm of the general property tax's entire historical trajectory. In the antebellum context, the tax was backed by many wealthy, commercially-oriented groups: slave owners, urban property holders, and the promoters of internal improvement projects. A few generations later, the socioeconomic counterparts of these same groups would be bitterly opposed to the general property tax, ultimately overturning it.

Also noteworthy is the difference in the existing historiography between the northern and southern states. In both regions, the general property tax — including the key sub-component, ad valorem land taxation — was linked to the long-term trend toward base broadening and, more immediately, to the desire for increased revenues. It was also tied to boosterism and pro-development policies. Beyond these similarities, however, one detects some significant differences. In the North, ad valorem land taxation not only provided needed revenues for internal improvements, but also appears to have represented a political compromise — a means for better aligning the costs and benefits of transportation projects. In the South, however, the general property tax appears to have been one part of a wider political battle linking the apportionment of legislative seats to the apportionment of tax burdens between property and polls, between slave and landed wealth, and between urban and rural areas. Even though commercially oriented elites in the South, like their counterparts in the North, promoted the general property tax as a means to fund development projects, they were also keenly interested

in the fiscal reform as a defensive political strategy against feared democratic excesses. The different political contexts may have led to different quantitative outcomes. Wallenstein and Thornton, studying the South, find that ad valorem taxation, at least in the short run, led to higher relative tax burdens on rural land and lower burdens on town lots. By contrast, Wallis' analysis of Indiana finds a rather different result: the more developed areas, especially in towns near canal routes, ended up paying larger shares of the tax burden — a necessary outcome in order for the fiscal reform to serve as a true political compromise by better aligning, on a geographical basis, the costs and benefits of internal improvements.

To some extent, the regional differences in the existing fiscal historiography reflect different scholarly emphases. The field is still under-researched, and additional study might yield a broader commonality across the North and South in the story of the rise of the general property tax — a story featuring both the political compromises of pragmatic boosterism and the redistributive battles over relative tax burdens. That said, the differences in the existing literature do reflect something real. Slavery represents a fundamental structural distinction between political economies. Recall that the overview of the early national period emphasized similar structural differences — in essence, diverging fiscal-political cultures. Carry this theme forward to the antebellum period. Perhaps the generic thing called "the general property tax" conceals as much as it reveals. This tax may have meant rather different things from one region to another: the political motivations could have been different, as could the resulting shifts in tax burdens, for example, between urban and rural land. Einhorn makes this case directly: "while the point of uniformity in the South was to limit the taxes that majorities could impose on elites, the point in the North was to increase the taxes on elites."[53]

A new fiscal regime: revulsion and the constrained property-tax state

[53] Einhorn 2006, p. 242.

The unrealized cameralist dream and the default crisis as a turning point

Another factor behind the general property tax's emergence as the chief fiscal device of a new era can be seem by returning to a consideration of internal improvements. As noted above, the 1820s and 1830s had been a time of experimentation in the active uses of government, especially at the state level, to promote economic development. Public ventures in canal building, railroad promotion, and other internal improvement projects were viewed, at least by their advocates, as civic undertakings in the spirit of revolutionary republicanism. They were also seen as a way for state governments ultimately to achieve a desirable fiscal arrangement in which a substantial portion of revenue would come from state-owned assets (in the form of tolls, fees, land sales, and investment returns) rather than direct taxation.

This cameralist fiscal ideal was realized, but only partially and intermittently. A fair number of states experienced periods in which they were able to reduce their property tax levies considerably, sometimes even eliminating them. The relative importance of nontax revenue was a key feature of the antebellum fisc, one distinguishing it from the late nineteenth and early twentieth centuries, during which state governments drew larger shares of total revenue from taxation.[54] Recall Figure 14, which showed a pronounced drop in state tax reliance during the 1820-1840 period. Also noteworthy is the relatively large gap between the two averaging methods shown in the figure. Tax reliance for state government as a sector was considerably lower than the average tax reliance among the states, implying that the cameralist turn was most pronounced in the larger states (those with bigger economies, populations, and thus fiscs), because they are the states that exert the greatest influence over aggregate fiscal measures.[55]

[54] For example, see Gunn 1988, 138-143, for discussion of the antebellum reluctance to resort to direct taxation.

[55] See Wallis, Sylla, and Legler 1994, which confirms that more developed states were those with the highest reliance on banking-related revenues, which could take the form of either non-tax revenue or indirect taxes.

Wallenstein's study of public policy in antebellum Georgia finds that nontax revenue was especially important for the timing of new state policy initiatives in areas besides transportation and financial infrastructure (for example, state funding for common schools, higher education, asylums, hospitals, prisons, and schools for the deaf and blind). At least in the case of Georgia, expansion of government activity tended to match the periods in which fresh infusions of nontax revenue entered the system.[56] If the antebellum state was to grow at all, then, it appeared to need either a burst of nontax revenue to foster a new policy initiative, or fiscal reform (ad valorem taxation) that was explicitly linked to an internal improvement agenda offering at least some hope for future nontax revenue and, conceivably, relief from direct taxation.

In spite of the relative importance of nontax revenue in historical comparisons with other periods, however, it seems fair to say that the cameralist vision was not fulfilled in any lasting way. Moreover, the confidence in the type of entrepreneurial state activism necessary to achieve significant flows of asset income was seriously eroded. Many accounts identify the default crisis of the early 1840s as a key turning point. Henry Carter Adams, for example, spoke of a "revulsion of sentiment" as the locus of internal improvements shifted from government to the private sector.[57] Carter Goodrich and others have correctly emphasized that government hardly abandoned the field of internal improvements: boosterism remained a potent force. Nonetheless, a sea change did occur, a change closely associated with the rise of the general property tax. This change was reflected in the aggregate statistics on government expenditure: recall transportation's rise-and-fall trajectory in antebellum state budgets, as shown in Figure 18. The change was also reflected in the organization of subsequent internal improvements — both the locus within the federal structure (state versus local) and the character of the involvement (mere subsidy versus active control).

[56] Wallenstein 1987, p. 26, 31, and elsewhere.
[57] Henry Carter Adams 1887, p. 339. Also see Goodrich 1950; and Holt 1977, p. 51-56.

Expansion of internal improvements and the equalization of benefits

In many states, internal improvement programs underwent strain from their own successes and political motivations. For example, the early phase of Ohio's experience in canal building was characterized by careful prioritization, guided by a canal commission intent on focusing limited resources on key routes. In the early 1830s, however, such restraint was overrun as bypassed locales pressed demands for projects of their own. The success of these demands hinged upon a rosy fiscal context fueled by booming public land sales and rising real estate values, which in turn were undergirded — in circular fashion — by an increasingly ambitious internal improvements program that promised to bring many locales into closer contact with the market. Scheiber describes the Ohio legislature as "apparently acting on the maxim 'Something for Everyone'". During the late 1830s it approved a variety of canal and river projects, along with a program that promised state aid to private corporations for the construction of canals, rail lines, or turnpikes. The latter program, known as the Loan Law, represented a substantial and open-ended fiscal commitment of the state government toward transportation investment along the lines of "mixed public-private enterprise." In a similarly expansive fashion, New York followed the great success of the Erie canal with a proliferation of other routes, many of which turned out to be financial flops for the state.[58]

On one hand, this dynamic seems like boosterism as usual. States such as Ohio and New York may have been able to achieve political consensus on some initial routes of statewide importance, temporarily overcoming the geographic conflicts that bedeviled internal improvement programs, but eventually local forces reasserted themselves. On the other hand, the proliferation of projects may indicate another force at work —

[58] Quotes from Scheiber 1969, p. 88 and 111. Also see Larson 2001, p. 204; Gunn 1988, p. 116-18, 145; Goodrich 1950, p. 153; and Goodrich 1960.

> namely, the influence of an essentially ideological view of state transport policy. This view, expressed in the rhetoric of men who promoted new projects, held that the benefits of public enterprise must be "equalized" and therefore widely diffused. It was a variant of the egalitarian political ideology that pervaded popular thought in the 1820's and 1830's; and as such, it provided men with a well-developed rationale for expansion of state-finance public works on a comprehensive scale, rather than expansion on a cautious and selective basis.[59]

In addition to drawing upon the egalitarian political language that most partisans of the era had to deploy in order to be successful, the logic of equalization had a direct parallel on the revenue side of state finance. As noted above, ad valorem taxation was a fiscal reform often tied to internal improvement programs as a political compromise said to align fiscal costs and benefits among different sections of a state: those areas that experienced increased property values as a result of successful projects would end up bearing a greater share of the state tax burden. Underlying this sort of political reasoning was what fiscal theorists would describe as a *benefit theory* of taxation. In pure form, a benefit tax is a user fee, an amount paid in direct exchange for a government good or service. Under such an arrangement, "the relation between citizen and state is a kind of commerce."[60] Citizens get from the state exactly what they pay for. The benefit doctrine emerged in the writings of various political economists in the seventeenth and eighteenth centuries. Even though its early proponents typically deployed the doctrine in opposition to property taxation, fiscal ideology in the United States followed a different intellectual track, with the benefit doctrine and the property tax as traveling companions.[61] As noted previously, the era of the general property tax was also the era of fiscal localization. Particularly at the local level, there is a seeming reasonableness in viewing property taxes as fees for government services — namely, the public infrastructure that supports and enhances property wealth. An ad valorem

[59] Scheiber 1969, p. 88-9.
[60] Hale 1985, p. 392.
[61] See Hale 1985 and Groves 1974.

property tax, then, seems to promise "an objective measure of the central service of the liberal state: the protection of private property."[62]

The nineteenth-century justifications for ad valorem taxation frequently marshaled ideas consistent with a benefit view of taxation. One should be careful, however, about investing too much in such statements. As a rule, abstract fiscal principles are supremely malleable. The intellectual history of the benefit doctrine illustrates this point: initially set in opposition to property taxation, the doctrine became closely linked to the tax in the United States. The benefit doctrine, just like the principles of uniformity and universality, could be fit easily into a variety of political programs, which might or might not be consistent with the seeming egalitarian and universalistic character of these fiscal principles (as, for example, in the planter advocacy of the general property tax in the South). In any case, these principles circulated widely, no doubt in part because of their malleability. Partisans from all sides had to draw upon this conceptual language in order to attract support.

In the area of internal improvements, then, "equalization" was a key theme on both the benefit and cost sides of the ledger. The extension of projects to bypassed areas came to be described as something of a political right for localities. "In this way, Americans elevated their arguments for local advantages to the status of political principle."[63]

The technical and political forces behind localization

Moving with this ideological current, transportation technology was changing, as railroads were becoming increasingly attractive relative to canals on a variety of economic and technical grounds. The shift from canals to railroads involved not merely technological change, but also organizational and corresponding fiscal changes. Typically

[62] Hale 1985, p. 393.
[63] Scheiber 1969, p. 91.

canals had been built and operated directly by state governments. By contrast, railroad lines were usually controlled by private corporations, with some exceptions. Although railroad development was highly supported by state governments, this support was largely permissive in character and it took the form of a favorable legal and regulatory environment: for example, limited liability for railroad stockholders; devolution of the power of eminent domain to private railroad companies, along with favorable rules regarding the compensation to be paid to displaced property owners; and various sorts of tax exemptions for railroad properties.[64] But state governments did not usually exert outright public control over railroads the way they had done with canals.

When public funds were spent for railroad development — and they frequently were — they usually came from localities, not the states. This shift in the locus of public aid for major transportation projects can be viewed from the perspectives of both the recipient corporations and the subsidizing local governments. By appealing directly to local governments, which aggressively tried to outbid each other to influence routes, railroad companies could obtain favorable financial support without sacrificing any control over railroad operations — strings that might have accompanied state aid. For their part, local boosters saw in this arrangement a way to bypass the frustrations and compromises of state-level planning for internal improvements.

> Local promoters saw the possibility of achieving their ambitions independently of the state-as-enterpriser. No longer did they feel the need to appear before the legislature as supplicants, seeking places in a larger system of public works that fused the goals of many local regions and neglected others. Instead, local promoters now asked the state only to give free play to private enterprise.[65]

Thus the technological changes favoring rail interacted with political incentives to steer transportation projects along a different organizational and fiscal path, one on which decisive infrastructure would be publicly subsidized, but not publicly controlled.

[64] Scheiber 1969, p. 272-79. Also see Scheiber 1973.
[65] Scheiber 1969, p. 281.

An ideological shift and a new era of fiscal restraints

Accompanying this shift was an ideological turn — a more general loss of confidence in the ability of the state to plan and operate large-scale transportation systems. Fallout from the financial crises of the late 1830s and early 1840s had heightened concerns about debt and tax levels. These concerns merged with a growing ideological critique of public works projects, a critique that touted the virtues of private enterprise and the market system. The center of gravity of the political language surrounding transportation projects shifted from republican to liberal — away from the positive view of governmental action embodied in the older meaning of the term "internal improvements" and toward a more negative view of the state.[66]

The logic of this ideological shift would be carried even further. Even the local approach to the public subsidy of transportation projects led to various political conflicts and stresses, as certain locales lost out in the bidding wars or as others overcommitted themselves on projects that failed to deliver promised economic and fiscal benefits. Furthermore, private capital was becoming better able to finance continued expansion of railroad networks. Such developments combined with an increasingly negative view of fiscal commitments, leading to various restrictions against public aid for private corporations. For example, Ohio revised its constitution in the early 1850s. The new document placed strict limits on state borrowing, and it prohibited local borrowing for the purpose of investing in private companies (typically local governments would aid rail development by purchasing stock in the railroad corporation, much the way state governments had done to foster banking).[67] Larson summarizes the revulsion epitomized by the Ohio constitutional revision.

[66] On this general theme of the shift from republicanism to liberalism, see Larson 2001 and Gunn 1988.
[67] Scheiber 1969, p. 286-7.

> The potential for public bankruptcy and the imposition of new direct taxes frightened voters, who leveled blame in various directions (depending on their faith in Democrats or Whigs) and soon repudiated not only their debts but their enthusiasm for public works. Lawmakers denounced the "unnatural alliance" of public and private enterprise represented by the Loan Law — now called the "Plunder Law" — and refused all new requests for public works as well. By 1851 a new Ohio Constitution prohibited state borrowing, and the political wisdom of the day had turned decidedly against public enterprise. Despite their enviable credit record, their enjoyment of some of the best transport facilities in the Union, the remarkable integrity of the public works commissioners, and their own greedy complicity in the reckless expansion and the state's brush with insolvency, Ohio voters and taxpayers seized upon the liberal critique of public works that swept the country in the wake of the failure of so many other local programs. After 1850 Ohio candidates for office embraced what long had been Virginia's answer to the challenge of state internal improvements: that public works were inherently wasteful and inevitably corrupt.[68]

Somewhat ironically this same constitution enshrined Ohio's ad valorem revenue system in the formal language of a general property tax uniformity clause. The irony can be seen by recalling that a key impetus for this system had been the state's canal program — arguably an even more centralized, more activist public works program than the type of fiscal commitments being prohibited in the new constitution's debt restrictions.

A similar sequence was followed in New York: a growing ideological critique of state activism culminating in a new constitution (in 1846) imposing various fiscal and developmental restrictions on state government. Under the banner of what was known as the "Stop and Tax" policy, this critique combined retrenchment on internal improvement projects with a formalization of the general property tax as a more permanent part of New York's fiscal structure. Although even the most ardent Whig promoters of internal improvements had been willing to deploy expanded property taxation as a financing tool during the heady days of the 1820s and 1830s, the vision ultimately had not hinged on heavy, long-term reliance on property tax revenue; rather,

[68] Larson 2001, p. 204.

this fiscal device had been a means to a cameralist end. The revulsion during the 1840s against such state activism also drew upon the general property tax, only in this case for fiscally conservative purposes. On one level, the "Stop and Tax" policy was ordinary budget balancing: an additional tax levy to pay down the state's debt and shore up its credit. On another level, at least for some critics, enforced reliance on property taxation would exert a strong political discipline, keeping state spending and borrowing in check. After 1842, the property tax became a regular and important feature of New York's state finances.[69]

State constitutions adopted and revised during the antebellum period not only formalized the emerging ad valorem fiscal regime (often including uniformity and universality clauses), but also imposed a variety of other restrictions, leading to important changes in state and local governance. Departing from older constitutional traditions, in which founding documents were brief and provided only general frames for governance, state constitutions evolved into long, detailed codes that proscribed various types of government activity, particularly in fiscal and economic matters. Constitutions became "a litany of restrictions — of thou-shalt-nots."[70]

Of particular importance were limitations on public borrowing, defining the amounts that could be borrowed and tightening the procedural rules for incurring debt (for example, requiring the approval of debt beyond a certain level by either referendum or legislative super-majority). The debt restrictions imposed on state governments had the effect of shifting government promotional activity — and the borrowing to support it — away from states and to counties and municipalities. Sometimes various debt restrictions were imposed on local governments as well, though many of these restrictions would not appear until the latter part of the nineteenth century. A closely related set of restrictions prohibited the investment of government funds in private corporations, or the extension of public credit to them. Such restrictions, again, typically

[69] Gunn 1988, especially Chapter 5.
[70] Hall 1992, p. 247.

were imposed on state governments during the antebellum period and were extended to local governments later. One effect was to curtail a government's ability to engage in the kind of joint public-private entrepreneurialism necessary to generate significant inflows of asset income (transportation tolls, bank stock dividends, and so forth). Along similar lines, states were limited in the use of the tool of special incorporation, thus removing another source of nontax revenue from the state's fiscal quiver. Special incorporation had allowed states to grant corporate charters in exchange for franchise fees or stock subscriptions. In place of such arrangements, incorporation procedures were liberalized along two tracks — one making it easier to obtain special charters, and the other moving toward general incorporation procedures, which ultimately transformed incorporation from a legislative to an administrative process, under which any group could obtain a charter simply by paying a requisite fee and meeting certain requirements.[71]

The political context for such changes included several dynamics, most of which have been touched upon already. The most general was perhaps a declining faith in legislative bodies, which were viewed by many as both fiscally reckless and politically corrupt. Of particular salience in this critique were state-level internal improvements — costly programs that seemed mainly to confer direct benefits on narrow interests.

> The single most important change was a dramatic reduction of legislative power. For more than half a century, the legislature had enjoyed virtually unchallenged dominance in the political system. By the mid-1840s, however, many New Yorkers had come to believe that the result of unrestricted representative government was corruption; special interest domination of the legislative process; legislative agendas overwhelmed by the annual flood of special, local, and private bills; and huge state debts, arising principally from the logrolling of ill-conceived and untimely internal-improvement projects. The politics of distribution, in short, had run amok. The remedy was to drastically curtail distributive outputs while, at the same time, imposing tough new standards of legislative

[71] Robert A. Campbell 1909; Abernethy 1959; Gunn 1988, especially Chapter 8; Hall 1992; Fritz 1994; Monkkonen 1995; Wallis 2000b; Wallis 2001a; Wallis 2003; Lamoreaux 2006.

> procedure and bringing the legislature more directly under popular control.[72]

Included among the new restrictions were reductions in the length of legislative sessions, along with a switch from annual to biennial sessions. Such modifications to the legislative calendar were advanced on straightforward cost-cutting grounds, but there was also a more general negativism in play — a sense that legislative activity, if not strictly reined in, would inevitably result in the kinds of corrupt insider deals that internal improvements seemed to represent. One institutional outcome was a more even balance of power among the three branches of state government, as legislative discretion was limited, as the executive obtained some new authorities (for example, in areas such as the veto, pardoning, and appointments), and as the judiciary, now sometimes elected, acquired "a popular base from which to scrutinize legislative enactments," and did so with increasing frequency. More broadly, Ray Gunn's study of the antebellum political economy in New York suggests that a range of policy decisions formerly in the hands of the state legislature were shifted to other arenas: to various agencies or departments, some of them newly formed for particular functional areas (education, insurance, banking), and sometimes led by officials who were to be chosen by popular election; to the judiciary, including a new Court of Appeals replacing older quasi-judicial powers held by the legislature; to local governments, particularly county boards of supervisors, to which many former responsibilities of the state legislature were devolved; and to corporations, which now assumed the lead role in planning and coordinating major transportation projects.[73]

Fiscal negativism in an era of democratic politics

Closely related to such changes were the broader political trends toward democratization. As most states eliminated their economic qualifications for voting

[72] Gunn 1988, p. 184.
[73] Quote from Hall 1992, p. 247. Also see Gunn 1988, especially Chapters 7 and 9.

(typically either property ownership or tax-paying requirements) and as more capable party organizations emerged and mobilized the electorate, American politics entered a new era. This era was characterized on the legal plane by nearly universal suffrage for adult white males. On the electoral plane it was characterized by historically high turnout rates. The presidential elections of 1828 and 1840 are often seen as symbolic markers in the trend toward greater democratization, as turnout jumped from roughly one-quarter of the eligible electorate in 1824 to over one-half in 1828, with Jackson's victory signaling the efficacy of a new brand of politics premised upon elaborate party organizations and a highly mobilized electorate. By 1840, the Whigs had adopted the Democrats' techniques, crafted their message in popular language, and developed their party organizations to mobilize voters around that message. With this election, the turnout rates again jumped to a higher level, roughly three-fourths of the eligible electorate.[74] During the same period, a variety of state-level offices were changed from legislative appointments to positions determined by popular elections. Such offices included the governorship along with various judicial and administrative posts. Another institutional shift toward direct democracy was the requirement that state debts be subjected to popular referenda. Also, in some states, formerly large, multi-member legislative districts were carved up into smaller, single-member districts.[75]

At the same time, and working from the opposite end, these trends generated concerns in some quarters about the new democracy. As the basis for legislative power shifted from property to numbers, property owners had reason to wonder how democratically elected legislatures would exercise their authority.[76] Such questions were natural, especially in a fiscal context where property was the main source of direct tax revenue. We have already seen, for example, how concerns over legislative representation (in this case, reapportionment) interacted with debates over the general property tax in the South. Southern elites viewed this fiscal reform as a way to ensure that their "species of

[74] Rusk 2001, Table 3-3 and Chapter 3 generally.
[75] Gunn 1988, p. 190 and elsewhere.
[76] Abernethy 1959.

property" would not be treated unfairly should the reapportionment battles turn out unfavorably.

These two countervailing developments — increasing democratization and the concerns about it — tended to foster the adoption of the various restrictions. The "democracy" of small-property owners (or would-be owners) had compelling reasons for a negative fiscal outlook. Property ownership was the primary strategy for economic security and advancement available to people of ordinary means. This strategy was already a difficult one, and the added tax burdens from an activist state government seemed to make it more so. When such activism was paired with fiscal reform that eliminated the favored tax status of rural land, when the direct benefits of internal improvements seemed to go to a rather small group of insiders, and when such projects brought many states to the brink of insolvency in the early 1840s, the fiscal negativism of small property owners is readily grasped.

At the same time, elites could see a certain protection in the new restrictions — including the constitutional uniformity clauses that spread northward and westward beginning in the mid-1840s — because they provided a measure of assurance that popularly elected legislatures would not use their authority in ways that threatened the property of numerically-outgunned elites. The shifting locus of control over transportation development — away from state governments and toward private corporations — provided a similar kind of assurance. The developmental projects that commercially-oriented elites tended to favor would still go forward, but on terms likely to be generally favorable to the interests of propertied groups. Also, as noted above, many policy decisions were shifted from the political realm to administrative and judicial venues, effectively adding a new layer of insulation between electoral democracy and economic policy, a point emphasized in Ray Gunn's study of New York:

> This diffusion of public authority at precisely the moment when political participation was expanding goes to the heart of the emerging political

> order. ... [F]or all the democratizing tendencies of the preceding three decades, and they *were* real, there were nevertheless limits to the people's role in substantive policy making. The legislature in the third quarter of the century was but a shadow of what it had been earlier. A whole range of issues, mostly economic, had been either depoliticized or privatized. At the same time, the rise of administration and adjudication, almost by definition, imposed limits on the power of popular majorities. Together, these developments drained political participation of much of its substantive meaning. The people, acting through democratic procedures, constituted one of a growing number of decision-making authorities.[77]

Such observations are admittedly speculative, but they have a ring of plausibility, because this dynamic seems to be a perennial in American fiscal history — namely, the new fiscal-political regime that receives support from popular quarters while simultaneously providing propertied elites a counterweight against perceived threats from excess fiscal democracy.

It should be emphasized that the various constitutional limitations were not fiscally restrictive in every sense. For example, on one hand the trend in incorporation law can be viewed as a limitation on the ability of state governments to arrange public-private ventures capable of yielding future streams of asset revenue. On the other hand, liberalization of the incorporation procedure resulted in a significant increase in the number of incorporations, and the administrative fees from this higher volume represented at least a minor source of nontax revenue. Also, some states in the commercially developed Northeast came to rely on taxes levied against bank capital, thus aligning their fiscal interest with a more expansive incorporation policy.[78] Such trends would be carried even further in the late nineteenth-century, most famously in New Jersey. By offering a favorable legal and regulatory environment, the state was able to entice many of the nation's largest corporations to locate their legal status in New

[77] Gunn 1988, p. 257.

[78] For additional information on the extent to which states relied on bank-related revenue, along with an examination of the relationship between a state's fiscal interest in banking and its regulatory policy toward the sector, see Wallis, Sylla, and Legler 1994.

Jersey. In return, the state levied taxes against the authorized capital of these corporations, obtaining a politically convenient source of indirect tax revenue.[79]

In similar fashion, the limitations on indebtedness and the prohibitions against public assistance to private concerns, while very real restrictions in some respects, did not eliminate public borrowing to promote the private development of infrastructure. Especially at the local level, this sort of boosterism was actively pursued. For example, Eric Monkonnen examines a sample of over 900 local bond defaults in the period from 1854 up to (but not including) the Great Depression. The most common type of default was for bonds used to support railroad development — 35 percent of the pre-Depression sample — suggesting that localities were still very much engaged in using public borrowing capacity to promote the development of infrastructure by private corporations. Interestingly, the existence of state-imposed limitations on local indebtedness was sometimes exploited by municipalities seeking a way out of debt obligations, either because they found themselves overextended or, perhaps more commonly, because they felt that the subsidized enterprise had failed to deliver on its developmental promises. In their legal battles over such defaults, "cities consistently argued a debt's illegality — that it had been contracted above and beyond what was permitted by the constitution — to escape their contractual obligations or avoid payment to nonperforming private enterprises." The restrictions, in other words, may have served as a backdoor for local governments and a way to discipline subsidized corporations, rather than as an effective limitation on local indebtedness for developmental purposes.[80] The legality of the debts came into play mainly when the projects foundered or the fiscal outlook turned bleak. Monkonnen's examination of the politics of debt limitation suggests similar complications. At the Illinois constitutional convention of 1870, for example, delegate support for limits on local indebtedness did not jibe with the seeming markers of fiscal entrepreneurialism versus fiscal conservatism. Rather, the voting patterns suggest that the dispute was centered on the

[79] Grandy 1989. Also see Wallis 2003.
[80] Monkkonen 1995, p. 69 and 72.

issue of local control, rather than being a conflict between modernizers eager to use public resources for developmental purposes and fiscal conservatives intent on limiting debt and taxes. As Monkonnen encapsulates the story, "either the farmers were not fiscally conservative or debt limitation was not the fiscal conservative's choice."[81]

Similar points can be made about the requirements for voter approval of public indebtedness. In certain political contexts — perhaps in most antebellum states and localities — such requirements could have exerted a strong restraint on the fisc. But we know from fiscal studies of different time periods that sending major fiscal decisions out to a popular vote has been used quite successfully as an *expansive* fiscal strategy, with (poorly attended) special elections being heavily influenced by various pro-spending interest groups, and with the referendum providing much needed cover to representatives hemmed in by a competitive partisan political environment.[82]

Notwithstanding such complications and nuances, the overall tendency appears to have been toward a more restrictive fiscal environment, particularly for state governments, which had engaged in the most active forms of economic promotion during the canal era, and which would experience an extended period of fiscal restraint beginning around 1840 and lasting for as long as seven decades (recall Figure 7). At the same time, reliance on property taxation increased, reaching historic highs in the latter part of the nineteenth century, as opportunities for nontax revenue — notably the borrowing and asset income associated with earlier internal improvement ventures — were constrained by the new constitutional and political limits. When states turned to ad valorem taxation or a full-fledged general property tax in the 1840s and 1850s, one of the key motivations, as noted previously, was to increase revenue for various kinds of projects. State activity in the field of internal improvements did not cease, but the promotional goals had to be pursued with a somewhat different strategy. In the 1840s

[81] Monkkonen 1995, p. 50.
[82] For example, see Higgens-Evenson 2002, p. 627; Higgens-Evenson 2003, p. 57-62 and elsewhere; and Laichas 1999, p. 32, 516-18, 588-96, 713-15, and elsewhere.

and 1850s, state governments did not have as much freedom of action to structure an internal improvement program around borrowing to be funded by future asset income. Developmental projects needed to be preceded by revenue-raising fiscal reform. This heavier reliance on property taxation served, in feedback fashion, to strengthen the emerging fiscal negativism. If projects were to proceed, they needed infusions of property tax revenue, but property taxes were extremely unpopular, which meant that states would face tighter restraints on fiscal growth.

Making sense of the shifting locus of fiscal activism

Nonetheless, the forces behind boosterism and government growth did not disappear. As noted above, while state governments may have entered a prolonged period of relative fiscal stasis, local government would grow more rapidly during the rest of the century. As a result, there was yet another reversal of the fiscal center of gravity at the state-local level. Recall that during the colonial period, local taxes had predominated over provincial (or "state") taxes. This predominance was considerably reduced during the early nineteenth century as state governments entered a period of greater activity. In terms of total revenue, the state sector at least approached the level of the local sector and may have exceeded it in particular regions or states. In terms of borrowing — perhaps a better indicator of fiscal activism — state governments achieved clear dominance. In the 1840s this trend slowed and was ultimately undone. Local governments reoccupied the center of sub-national public borrowing, and a long-term decline in the state share of total state-local government revenue began in the late antebellum period, continuing until the end of the century (recall Figure 6).[83]

This shift in the center of fiscal gravity underlies John Wallis' important overview of American fiscal history, in which 1840 is identified as a turning point between two regimes, the first being the era of state-level asset finance and the second being the era

[83] Ratchford 1941; Monkkonen 1995; Wallis 2000a.

of local property taxation. Briefly recall the economic reasoning in Wallis' account: if a level of government has advantages in tapping the most important fiscal instrument during a certain era, that level of government will be the most active, in terms of both raising revenue and promoting economic development. The various restrictions and limitations described above left state governments "saddled with property taxes," a fiscal device for which local governments are said to have a comparative advantage. In particular, local governments seem better positioned to characterize property taxation as a benefit tax: a tax that, by virtue of being spent on local projects, will directly increase local property values. Also, state property taxation suffers, in the American context, from the liabilities of local administration. Local governments can under-assess property in order to keep the community's *state* tax burden low, while at the same time adjusting the local tax rate in order to maintain sufficient local revenues. Such considerations, in the light of the newly restrictive political and ideological environment that began to emerge around 1840, provide an economic explanation for the trend toward fiscal decentralization already noted: state revenue stagnated, and the local fisc became relatively more dynamic.[84]

While this reasoning seems plausible and may be true as far as it goes, there are certain complications. Ad valorem taxation emerged as an aspect of revenue sophistication, first appearing as a base-broadening and revenue-enhancing measure in the northeastern states.[85] Moreover, this fiscal reform was a key component of state government activism. At the beginning of the story, the general property tax and its sub-components are characterized as advantageous for state government — a way to increase revenue for various developmental projects, and to do so in a way that achieved a certain political compromise. By the end of the story, the tax is characterized as a special liability for states. What, then, explains the coming fiscal stasis for state governments? Perhaps the logic of comparative fiscal advantage is helpful, emphasizing the inherent disadvantages of property taxation for state governments. Curiously,

[84] Quote from Wallis 2000b, p. 47. Also see Wallis 2000a; Wallis 2001b; Wallis 2001a.
[85] Einhorn 2001, p. 985.

however, the reformer-activists of the earlier period did not appear to perceive such disadvantages very acutely when they lobbied for ad valorem property taxation as part of their developmental programs.

An alternative approach is to emphasize the changed political and ideological environment itself. This new context led to the various restrictions and limitations on state governments. Both the new limits, and the animating ideological shift, then served to exert a strong restraining influence over the state sector, quite distinct from any inherent disadvantages that state governments might have in levying property taxes. Indeed, Ray Gunn's study of antebellum New York finds that a wide range of institutional reforms were adopted during the 1840s with the precise goal of political decentralization — moving political and policy authority away from the center and toward a variety of other decision makers: new administrative agencies, the courts, county boards of supervisors, and so forth. Viewed in the context of such reforms, states did not become relatively less active than local governments because the dominant revenue instrument changed, thus putting states at a comparative fiscal disadvantage; rather, there was an explicit and wide-ranging political movement to shift authority away from the center.

These explanations for the shift in the center of fiscal gravity are by no means incompatible. On one hand, an ideological environment — and corresponding policy changes — tending to discourage state activity could have emerged. On the other hand, general considerations about the relative abilities of state and local governments to exploit a property tax could be valid. It may be true that local governments have inherent advantages relative to states in levying property taxes, though even local property taxes have been extremely unpopular in the broad sweep of American fiscal history. In fact, as a practical matter it is not easy to distinguish precisely between property taxes levied at the state versus the local level, especially during the twentieth century when intergovernmental revenue flows would become more important. This

blurriness is also seen in the periodic agitation against property taxation, where the grievances — and hence the political constraints faced by governing jurisdictions — appear to apply to the *aggregate* property tax burden rather than just to the state's portion of it. Furthermore, the logic of comparative fiscal advantage never quite breaks out of its own confines, taking the era's dominant revenue instrument as a given. If the property tax constrained states from doing things they might have otherwise done, why did state governments take so long to pursue other revenue sources on a widespread basis?

An additional consideration is that the shift toward a more localized approach to internal improvements was a dynamic that arose from forces partly independent of revenue structure. Changes in transportation technology, increasing sophistication in private corporate organization, and a desire on the part of local boosters to bypass the compromises of state-level politicking all worked to shift internal improvements from the statist character of the canal era to the local and corporate character of the railroad era. Under this line of thought, the problem was not that states were saddled with a constraining revenue device (the property tax); rather, it was that the big projects themselves were shifting, for their own political and economic reasons, to the local level.

Here, too, such observations need not be viewed as incompatible with Wallis' emphasis. In any case, if considerations of comparative fiscal advantage do carry some weight — and they probably do — they point to a somewhat ironic outcome. States frequently turned to ad valorem property taxation as one component of an active program of economic promotion. Ultimately, however, they found themselves constrained by the very fiscal device that once seemed to widen their policy options.

Conclusion

As this overview has shown, American fiscal history is not well revealed by starting from vaguely functionalist premises about the supposed fit between the general property tax and a simple political economy of an agrarian past. Instead, the tax's origins are to be found in various other themes: commercialization and market development; government activism and the controversies over it; revenue growth and fiscal sophistication; geographic conflict over the costs and benefits of major public projects; and battles among economic sectors or classes over the distribution of tax burdens within the context of a new type of politics where sheer numbers mattered more. These are the markers of modernization, not agrarian simplicity.[86]

Similarly, a compelling explanation for the emergence of the general property tax is not to be found by invoking an egalitarian spirit of the age. To say this is not to deny the importance of institutional and ideological changes that were transforming electoral politics along more democratic, participatory, and partisan lines. Nor is it to deny the potential abstract connection between universal fiscal principles and egalitarianism. But general fiscal principles, like the broader language of republicanism, were malleable indeed. They were readily marshaled for a variety of political and policy agendas. The new democracy and the new egalitarianism should be viewed as providing a common political language used by various partisans, rather than a specific explanation for the rise of a new fiscal regime based on the general property tax. The most compelling point is that the tax's chief advocates are all wrong: well-connected promoters of internal improvements, urban propertied groups, and the southern plantation elite — a cast of characters that does not jibe with an interpretation that leans heavily on the tax's egalitarian or populist origins. Moreover, the abstract concepts of uniformity and universality do not seem to have been especially heartfelt for these advocates. For promoters of internal improvements, ad valorem taxation represented a means to an end: a revenue boost and perhaps a way to achieve a geographic political compromise. And at least in the case of the South, the general fiscal principles were only useful for

[86] See Gunn 1988 for a important examination of the antebellum political economy framed as a study of modernization.

urban and planter elites as way to shift the tax burden to other social groups, or as a reassurance against perceived fiscal threats in a more democratic political context. But these same advocates proved quite willing to depart from abstract fiscal principles, carving out exceptions for their own brand of property as soon as the political situation seemed right.

Indeed, the opportunistic departures from the ideals of general property taxation seen in some of the southern examples were but a prelude for the next chapter in the tax's story. In the late nineteenth century, various middle-class, reformist, expert, urban, industrial, and propertied groups would launch a full-scale ideological assault on general property taxation. At precisely the moment when the tax's principles really started to matter in both North and South — and perhaps not coincidentally when the tax started to bite into new forms of wealth — such groups would perceive the tax as supremely unfair and dysfunctional, evade it on a massive scale, and ultimately overturn its central (wealth-threatening) features of uniformity and universality.

One area where the new political language of egalitarianism did seem to find a more direct connection to policy outcomes was along a different dimension — one not really envisioned by traditional interpretations emphasizing a democratic spirit of the age. This was the dimension of local advantage. The rhetoric of "equalized benefits" was an important part of the shift in internal improvements: local rather than state subsidy; corporate rather than government control; and a more general loss of faith in the ability of state government to organize complex projects, along with a set of restrictions to hinder its ability to do so. All of this added up to a more negative and constrained vision of governance, particularly at the state level — essentially a liberal, rather than republican, vision. It was a liberalism willing to obtain public subsidy for infrastructure, but the strings of public control or regulation were not to accompany this aid. Seriously eroded was an older view of state governance as a potentially positive force in the promotion of wider commonwealth goals. The quantitative markers of this new regime

were fiscal localization, along with increased reliance on taxes generally and on the property tax in particular. These fiscal measures would reach historic highs during the last half of the nineteenth century.

Section 3.
The fall of the general property tax

This section of the dissertation covers the period from the 1870s through the 1930s, during which three broad changes were occurring in the fiscal and political systems of state and local governments.

• The first was a movement away from the general property tax. During the last third of the nineteenth century, the tax lost much of its intellectual or theoretical support and came under increasing political criticism from various quarters. By the 1920s, the tax had been abandoned completely by a few state governments and partially by others. During the 1930s, the property tax system collapsed, economically, administratively, and politically. Within a handful of years, the property tax — including its underlying legacy of wealth taxation — effectively disappeared from American state governance and was replaced by mass taxation, primarily in the form of regressive sales taxes.

• The second change was a transformation of governance at the broadest levels: the restrained nineteenth-century fisc was replaced by a more expansive twentieth-century fisc, and centralization emerged as a theme in governance on both fiscal and administrative fronts as higher government levels (federal or state) assumed larger roles.

• The third change was a major transformation in the practice of electoral politics, which became both less partisan and less mobilized.

The quantitative markers of the fiscal transformations were reviewed in Chapter 3 and were presented schematically in Table 6, which summarized the major regimes in U.S. fiscal history along several key dimensions. A glance at that table hints at the complexity of the period from the 1870s through the 1920s: it was a time when nineteenth-century patterns were giving way to twentieth-century patterns, but the changes did not proceed uniformly across government level, fiscal dimension, or geography; it was, to use Ballard Campbell's label, a "transitional polity."[1] In terms of the primary focus for this study — the choice of tax instruments for local and especially state governments — it was a period sitting between an old fiscal regime based upon wealth taxation (in the form of a general property tax) and a modern fiscal regime based upon mass taxation (in the form of income and especially sales taxes).

The ultimate shift to the modern system during the 1930s will be explored in considerable detail in the last chapter of this section — a chapter that effectively represents the culmination of this dissertation's narrative about the rise and fall of American wealth taxation. The focus of the first two chapters of this section will be on the initial — or, one might say, the most *transitional* — phases of the broader transformation. Between the old (general property tax) and the new (income and consumption taxes), one finds various fiscal arrangements that represented a shift *away* from general property taxation more than they represented movement *toward* modern fiscal devices. In fact, one of the weaknesses of the existing fiscal historiography is a tendency to rush the story and either to downplay the transition altogether — in effect, jumping directly from general property taxation to income and sales taxation, forgetting about the significant fiscal instruments developed during this transitional period — or to describe the transitional devices simply as precursors for modern instruments rather than the way contemporaries probably viewed them, namely as replacements for something old.

[1] Ballard C. Campbell 1995.

The historiographic point here amounts to more than quibbling over degrees of emphasis: a general goal of these chapters will be to argue that we cannot interpret the big transition from wealth taxation to mass taxation if we do not directly confront the more immediate transition — namely, the one that occurred in several states during the late nineteenth and early twentieth centuries as the general property tax gave way to various replacements that still fell under the rubric of property taxation broadly defined. If we skip these transitional fiscal instruments or if we are too quick to view them as warm-ups for modern taxes, we will misinterpret their political character and, just as important, not be able to connect the fiscal transformations directly to the simultaneous transformations in governance and electoral politics.

Before turning to a specific discussion of this transitional period, some other comments are in order both to set the background for the ensuring discussion and to mention two other goals for this section of the dissertation.

The general property tax would achieve its ideological peak in the quarter century preceding the Civil War. During that period, most newly admitted states included some form of uniformity clause in their constitutions, as did most revised constitutions adopted by existing states. By one count, 23 of the 34 states in 1859 had uniformity clauses, most of them with "literal strict provisions."[2] This constitutional and intellectual high-point for the principle of general property taxation would not survive the aftermath of Civil War, an event with substantial fiscal ramifications. By eliminating a major class of taxable wealth, emancipation thoroughly revamped the Southern fiscal environment, with significant consequences for governance and politics. Outside the South, state-local fiscal systems were structurally similar to those in the antebellum period, and one might have expected a continuation of the previous trends. Indeed, new constitutions adopted in both the South and the West following the war often included uniformity provisions, suggesting the continued salience of the ideals of

[2] See Newhouse 1984, p. 1711. Also see Einhorn 2001.

general property taxation. However, the beginnings of a new set of fiscal practices and ideas were becoming evident. At the aggregate quantitative level, for example, one can date the peak influence of general property taxation some time in the mid-1870s, when property taxes represented just under 60 percent of total state revenue (recall Figure 13).

Perhaps more telling than a shift in aggregate state reliance on property taxes was a sea change in ideas about the concept of general property taxation. A landmark of this change was a set of influential state tax commission reports issued in New York during the early 1870s. Often referred to as the Wells Report — after economist David A. Wells, perhaps the period's most noteworthy fiscal expert — these documents signaled the arrival of a new set of ideas regarding the conduct of state and local fiscal affairs. Instead of being on the upswing — gaining intellectual adherents and spreading geographically, as it had during the antebellum period — the general property tax started on its downward arc shortly after the Civil War. The Wells Report symbolized this new direction. Similar reports in other states would follow in what would become a long-running battle against the tax, one that would last until the 1930s.

In the first phase of this movement, the general property tax would come under intellectual and ideological attack, and it would be replaced or transformed into a diverse set of taxes that usually traveled under the historically apt label of "special property taxes" — apt because it precisely captures the fiscal evolution underway during the late nineteenth and early twentieth centuries. These new taxes were explicitly viewed in contrast to the system of general property taxation that they were replacing, amending, or supplementing. Special property taxes tended to be levies on business or financial property, especially the property of corporations, both because the taxes were often designed explicitly to tap corporate wealth and because corporate property represented a large portion of the total business or financial portfolio.

The shift to corporate or special property taxes did not proceed uniformly across the United States. To the contrary, one of the key themes in the early movement of American state-local fiscal systems away from general property taxation is geographic divergence. Before the Civil War, the two main regions in the United States (the South and the North) had been roughly on par with each other in terms of reliance on property taxes. By 1900, the North was on a notably different path than the South.[3] The North was both increasing revenues and relying less heavily on the general property tax (see Figures 23 and 24). To be sure, the South was undergoing similar trends, falling from its peak reliance on property taxes some time in the early 1870s, for example. Nonetheless, a gap was opening up between the North and South.

Thus, by 1902 — the first year of good fiscal data coverage — one observes a high correlation between geography (or region) and reliance on the general property tax.[4] This period is unique in the extent to which the major state taxing devices displayed such a pronounced regional pattern. Of course, region is not particularly compelling as an explanatory variable, because it is not certain what underlying mechanisms are encapsulated by the variable. One obvious candidate is economic development and, indeed, similarly strong (negative) correlations can be found in 1902 between reliance on the general property tax and the level of industrialization.

These and other statistical relationships will be explored in greater depth in Appendix 1; for now the point is more general. Strong correlations with a socioeconomic variable can tempt a researcher to drift toward an all-purpose, functional explanation for fiscal outcomes: with economic change (industrialization) comes fiscal change (the shift to corporate taxation). It seems natural for governments to tap new kinds of economic resources as they gain prominence. Under this logic, if corporate property becomes more important in the economy, new mechanisms will arise to tax it.

[3] Refer to Table 8 for regional classifications.
[4] Specifically, the percentage of tax revenue coming from the general property tax.

This style of explanation has parallels with two lines of argument already discussed. The first was the notion that the general property tax was a product of an agrarian political economy. Recall the view of fiscal experts from the late nineteenth and early twentieth centuries: as the society and economy developed and became more complex, the general property tax was no longer appropriate or functional. However, as discussed in the previous chapter, the origins of the general property tax are not to be found in simple agrarian times but instead in a set of economic, political, and institutional developments that fit more comfortably under the label of modernization than agrarian simplicity. The second was the notion that government growth is driven mainly by economic development: with socioeconomic change and complexity comes new needs or demands; in response, government assumes new functions. Correlations like the one noted between general property tax reliance and industrialization seemingly reinforce such a view. However, as noted in Chapter 3, the late nineteenth century did not witness a government growth spurt commensurate with the magnitude of economic change: both from the aggregate measures presented here (for example, recall Figures 4 and 5) and from various local fiscal studies of the late nineteenth century, we get the impression of a fisc operating under tight constraints and barely keeping pace with the growth of population and the economy. Admittedly, there is some imprecision here: the state that seems tightly constrained from the vantage point of the twenty-first century might seem overly expansive to a different set of eyes, including those of many contemporaries accustomed to lower tax burdens.

However, the strict socioeconomic explanation cannot get off the hook so easily. On one hand, the explanation is invoked to explain a major shift from one fiscal regime to another; on the other hand, the fisc is just managing to keep pace with economic growth. Even more damning is to take a longer historical perspective and note that the shift to corporate taxation would be short-lived: ultimately, we are headed toward a fiscal regime based not on the taxation of corporate wealth but on the taxation of both the incomes and the spending of the masses. It hardly seems satisfying to invoke

something like industrialization as an all-purpose explanation for the shift to corporate taxation but then fail to note that within a few decades corporate taxation would become much less important — even though the economy would not shift away from corporate organization at all.

The point here is not to argue against socioeconomic development as a vital component of fiscal change; rather, it is to insist on a wider causal narrative, one that includes politics, institutional arrangements, ideological developments, and socioeconomic change in an interactive way.

Since this theme keeps cropping up — a recurring argument against fiscal narratives based heavily on all-purpose socioeconomic causation — it might make sense to take a brief detour to model policy change more abstractly, as shown in Figure 25. The diagram is intended to emphasize the following:

- **The complexity and multiplicity of intervening factors**. Several intervening factors lie between socioeconomic change and policy outcomes. By itself, socioeconomic change is not determinative. A set socioeconomic developments can lead to different — in some cases, even divergent — policy outcomes, depending on the way that the resulting incentives are mediated through the political system in specific places at specific times.

- **Macro explanations require micro foundations**. A convincing narrative or social scientific model must connect socioeconomic development (a macro explanation) to the changed incentive structures and resulting behaviors of individuals and organizations.

- **Preferences must be realized in the form of policy-making power**. Various groups or individuals may change their economic, political, or ideological

preferences in response to new incentive structures resulting from socioeconomic development; however, if these preferences do not materialize in concrete form — first as political mobilization and then as political power — policy change might not be forthcoming. At this point in the process, the political system's rules and institutional arrangements can be decisive factors in determining whether new incentives and preferences result in the kinds of political outcomes (for example, election results) that would lead to policy changes.

• **The importance of feedback effects**. A policy change might be a result that we are trying to explain in one analysis; however, this effect can then function as a cause in subsequent developments. Moreover, such feedback causation can exert influence at every point in the sequence depicted in Figure 25.[5]

Thus, in addition to arguing that the transition from wealth taxation to mass taxation cannot be well understood without paying close attention to the transitional fiscal instruments (special property taxes), this section of the dissertation attempts, as a second general goal, to put forth a narrative of fiscal developments during the late nineteenth and early twentieth centuries that emphasizes the kind of multi-dimensional analysis outlined in Figure 25 and, more specifically, that goes beyond all-purpose socioeconomic explanations for policy outcomes.

A third general goal, related to the second one, is to continue the connection developed in the previous chapter — namely, between fiscal change and change in the institutional and behavior aspects of electoral politics. Just as the antebellum period experienced parallel changes in the fisc and in the practice of politics, we will find similarly

[5] See Munns 1975 and Robert L. Savage 1976 for two reviews of the comparative state policy literature as it stood in the field of political science roughly three decades ago. The criticisms offered in those reviews are still relevant — not just for political science but across the social sciences — and share an affinity with the approach advocated in this dissertation.

momentous political changes at the turn of the century: falling turnout, declining partisanship, new rules governing electoral politics, and new political strategies. The challenge will be to connect these political changes in a compelling way to the major fiscal changes — something the existing fiscal and political historiography has done within various specific contexts, but the attempt here will be to synthesize the findings of this literature more broadly and to present this synthesis in the context of the quantitative findings derived from the fiscal dataset developed for this dissertation. Several historiographic threads will be woven together: studies of the major transformation in the practice of electoral politics; studies that attempt to explain the growth of government and the broad transition from a highly restrained fisc in the nineteenth century to a more expansive one in the twentieth; and studies that address other fiscal transformations, such as the adoption of new fiscal instruments (corporate taxation and, later, income and general sales taxation) or the implementation of related administrative or institutional arrangements.

Chapter 6.
The general property tax crisis and the shift to corporate taxation

The general property tax came under increasing criticism during the decades after the Civil War. Many politicians, administrators, and fiscal experts started to view the tax as deeply flawed. These criticisms were couched within a broader line of argument that described both a fiscal crisis and, more broadly, a crisis in governance. Various administrative and fiscal solutions to the problems were proposed and, in the states where they were adopted, the solutions ultimately amounted to replacing all or part of a state's general property tax with various types of special property taxes, as they were called — taxes that predominantly took the form of levies against the gross revenue, net income, profits, transaction volume, or assets of corporations.

This chapter attempts to synthesize the existing historiography on these fiscal developments and to place this synthesis in the context of the fiscal dataset developed for this study. In addition, the chapter tries to come to grips with a historiographic puzzle concerning our political evaluation of the shift away from the general property tax and toward corporate taxation. One view — to some extent inherited from the era's fiscal experts — is that the general property tax had become unworkable, hopelessly impractical in an urban-industrial economy. Another view — to some extent inherited from the era's fiscal activists — is that the turn toward corporate taxation represented a democratic or progressive political reform, in which the polity discovered that its newly powerful corporate citizens were corrupting the system and were getting a free ride (or at least a discounted fare) when it came to paying the cost of governance. The third view is the cynical or ironic one: contrary to appearances, corporate taxation — along with the entire package of Mugwump or Progressive fiscal reform — was pro-corporate

at heart. When compared to the alternative — namely, the general property tax, which at its theoretical essence was a wealth tax — the new array of corporate taxes constituted a tax break and opened up avenues for increased corporate influence over politics and policy.

Thus, we have three alternatives: (a) corporate taxation as a neutral, expert reform; (b) corporate taxation as a democratic correction to rising corporate power; and (c) corporate taxation as a reflection of pro-corporate policy making and a solidified corporate influence over the political system. Each of these views has merit, and the discussion in this chapter will not choose exclusively among them. It will, however, attempt to show how these different views can be partly reconciled through a historical analysis. Each of these political evaluations has applicability at different points in the story (no doubt with geographic variation) as state and local governments went through cycles of action and reaction. This discussion will also show how even the "expert" or "democratic" reforms (corresponding to the first two views) drew upon some of the systems initially engineered for corporate benefit. And ultimately — that is, in a long-term historical perspective — the argument both here and in subsequent chapters will suggest that the third view is probably the most apt: the shift away from the general property tax did represent a victory of sorts for corporations and, more generally, for both the wealthy and the merely affluent.

Some background on the general property tax crisis

Expert criticism of the general property tax

Criticism of the general property tax became more pronounced, organized, and systematic during the last quarter of the nineteenth century. This was a period when the social sciences were emerging in their modern form and, more specifically, when taxation was growing as an academic subject in the United States. In this emerging

dialogue, both academic and government experts on taxation would play important roles.[1]

The influence of such experts on the ultimate policy outcomes is difficult to gauge precisely, and in the final reckoning this study places greater emphasis on economic, social, and political developments in making sense of the fiscal history. Nonetheless, even though it was not an area of focus for this study, the intellectual history of taxation in the United States is a promising line of inquiry, particularly if it were to be combined with a quantitative analysis of fiscal outcomes.

The most direct path of influence from evolving expert opinion to policy making was probably in the work of the numerous official commissions that were appointed by state governments to study the problem of state and local taxation — a problem that, in the eyes of many experts, officials, political leaders, and reformers would be described accurately as a both a fiscal and political crisis. By one count, nearly 50 such commissions were appointed during the period from the end of the Civil War to the mid-1920s.[2] The work of these commissions — and the ideas of the experts who staffed or at least informed them — often did not translate directly into political support or legislative outcomes. At least roughly, however, one can use the reports of such commissions as an indicator for the direction of policy change.

In the emerging critique of the general property tax, two influential documents were produced by such commissions, each of which had a prominent academic expert who played a substantial role in producing those parts of the reports that garnered the most

[1] The most extensive study of expert opinion on fiscal reform in the United States during this period is provided by Yearley 1970, especially Chapter 7; Yearley sampled the writings of over 100 fiscal experts and reformers. Also see Mehrotra 2003 for a more recent intellectual history of leading fiscal experts of the period; Ellis 1991, which focuses closely on the National Tax Association; and Groves 1974, which provides general background on the intellectual history of taxation. For a brief note on the rising importance of taxation as an academic subject in the United States, see Fisher 1996b, p. 122-23. For useful histories of American social sciences, see Ross 1990; Kloppenberg 1986.

[2] Yearley 1970, p. 171.

attention: the first was the New York State Tax Commission of 1871-1872, which was led by David A. Wells; the other was the Maryland Commission of 1888, its most noteworthy member being Richard Ely. Their recommendations were not embraced by their respective states; indeed, Ely issued his assessment as part of a minority report, because the other commission members did not share his views. Nonetheless, their work proved to be influential in at least two senses: it was widely cited by other experts and subsequent tax commissions, and it predicted many of the fiscal reforms that would come.[3]

The common criticisms of the general property tax and the specific reforms proposed to address the perceived fiscal crisis will be explored more fully in the ensuing discussion, but the core issues — as identified by the New York and Maryland commissions and later as elaborated in subsequent work by fiscal experts — can be summarized as a diagnosis, an explanation, and a proposed cure. The *diagnosis* was simply that the general property tax had failed: it achieved neither adequacy nor equity — neither sufficient revenues for government nor a fair distribution of fiscal burdens among taxpayers. The *explanation* for this failure focused mainly on two problems: one was the fundamental inappropriateness of a general property tax as an instrument for taxing property wealth besides real estate, and the other was the inherent difficulty of administering a property tax through a highly localized system. And the proposed *cure* consisted of three elements: first, an expanded oversight role for the state government in the administration of property taxation, with the purpose being greater efficiency and equity in assessment and taxation practices; second, a movement away from a shared tax base (general property) and toward a system in which state and local governments relied upon different tax bases; and third, the adoption of various taxes on businesses — particularly state-chartered corporations that held some type of monopoly power, such

[3] Yearley 1970, p. 171-5 and Higgens-Evenson 2003, p. 17-18.

as railroads, utilities, and banks — as a way to replace all or part of the state government's reliance on the general property tax.[4]

At an even more general level, many of the fiscal experts calling for reform of the general property tax system fit within an emerging intellectual tradition in Europe and the United States that was searching for a middle-way between the two schools of classical liberalism and socialism — or, to use somewhat different terms, a middle-way between laissez-faire individualism and socialist statism. A key step for this intellectual tradition was what has been called a "historicist" approach in social science. Within the field of economics, the approach was dubbed the "Historical School" by one of its chief proponents, Richard Ely. In contrast to laissez-faire economists of the time, who insisted that their economic ideas and prescriptions — specifically those for a minimal state — were based on immutable truths about human motivations, this new school of social scientists viewed their mission as scholars and policy advocates in more pragmatic, experimental, and provisional terms, emphasizing that as conditions evolved, our understanding of social processes would change and so too would effective policies. As Ajay Mehrotra has observed in a valuable intellectual history of such fiscal experts, "only after de-naturalizing the night watchman state of classical liberalism could these theorists take the second step of developing reformist policies."[5]

In particular, fiscal experts like Richard T. Ely, Edwin R. A. Seligman, Henry Carter Adams, and Carl C. Plehn had widened the set of concerns about the source of threats to individual liberty: such threats came not just from the state, as both the laissez-faire economists and the Jacksonians had warned, but from more recently consolidated institutions of political-economic power — most notably, corporations and political parties. In this manner, the usual arguments for a minimal state were turned on their head: in the new political economy, corruption and other threats to liberty occurred precisely because the state had been overly constrained, making it unable to resist the

[4] Yearley 1970, p. 175 and Higgens-Evenson 2003, p. 18.
[5] Mehrotra 2001, p. 18.

powerful influence of corporations and political parties that were able to bend governments to their wishes, particularly within the highly localized structure of American federalism.[6]

This is the wider intellectual context within which specific reform proposals fit: more state centralization, greater independence and expertise within the civil service, and an expansion of the state's resources and regulatory powers — additional resources that would come, in part, from taxing corporations. In the minds of some fiscal reformers, taxing corporations was part of a larger effort to rein them in and, more generally, to rebalance the American political economy in a way that would preserve a meaningful role for small producers and ordinary citizens within competitive markets and pluralist politics.

Of course, taking the historicist insights to heart, we realize that the process of taxing corporations might create a new set of a conditions — a political arrangement in which the fiscal linkage between corporate wealth and the state creates a new entry point for corporate influence over government. But here we are getting ahead of the story.

If the New York and Maryland state tax commission reports represented the arrival of a critique of the general property tax, the event signaling that this critique had won the day and effectively become the established view was the formation of the National Tax Association in 1906. Effectively, a forum had been created to critique the general property tax, and the failure of this fiscal regime was the underlying theme of the association's first two conferences. The meetings were attended by both academic and governments experts in fiscal affairs, and from 1907 to 1920, the association published roughly 7000 pages of tax debate and discussion.[7]

[6] Mehrotra 2001, Mehrotra 2003, Kloppenberg 1986, and Ross 1990.
[7] Yearley 1970, p. 187-91; Ellis 1991, and Fisher 1996b, p. 123-25.

The low-tax consensus and its fiscal instruments

The last third of the nineteenth century was a period of relative fiscal restraint. In addition to the roughly flat revenue and expenditure trends noted in Chapter 3, one can add a few other observations: by one estimate, the property tax rate was fairly stable in the period 1880-1900 at about 73 cents per $100 of estimated true value of property;[8] per capita debts were low by international standards, and the broad trend was for declining state debt;[9] many states imposed limitations on municipal indebtedness, and both state and local governments tended to operate with pay-as-you-go financing.[10] As noted in Chapter 3, the impression of fiscal restraint is strongest for the state level. The local government sector, in the aggregate, was probably growing modestly during this period relative to population and the economy. To the extent that there was fiscal growth during the late nineteenth century, the trend was one of fiscal urbanization. From case studies of urban fiscal politics during the period, there is also a strong impression of fiscal constraint: although governments might have grown incrementally, either keeping pace with economic expansion or outpacing it somewhat, the political environment placed strict limits on government growth, and the parties competed vigorously to outdo each other in their fiscal negativism. As Yearley characterizes the situation, "during the last third of the nineteenth century, a fiscal 'starving time' continually menaced government and party alike."[11]

The fiscal negativism of the late nineteenth century was partly a reaction to the financial consequences of the Civil War, during which many states and localities acquired unprecedented levels of debt and expenditure, leading to renewed calls to restrain government growth, whether through tighter limits on state and local indebtedness or

[8] Keller 1977, p. 323. Also see Teaford 2002, p. 294-6.
[9] Ratchford 1941, p. 253-4 and Teaford 2002, p. 291.
[10] Teaford 2002, p. 287-8.
[11] Yearley 1970, p. 98. Also see McDonald 1990.

though a more strict reliance on property taxation. This reaction was particularly strengthened in areas where the war and its political results were unpopular.[12]

At a deeper lever, the fiscal restraint of the late nineteenth century rested on popular opposition to property taxation, and this opposition can be understood by considering the following characteristics of the American political economy: high rates of property ownership; a high degree of political eligibility and mobilization; and an intensely competitive and partisan political environment. Real estate ownership was a key strategy for economic security and advancement in the United States, one pursued by both middle-class and working-class households. The rate of homeownership was quite high: for example, 46 percent of household heads in the 1900 census were homeowners (49 percent among whites, and 21 percent among blacks).[13] Working families achieved property ownership within a tightly constrained budget, one with little room for discretionary spending — or for additional property taxes. Meanwhile, nearly all adult males were eligible to vote and historically high percentages of them did so. The two major political parties battled for closely fought electoral victories in many states and, as a result of this competitive environment, the parties devoted substantial resources to achieving a high turnout. Moreover, due to residency requirements that were common in many states, voting eligibility tended to correlate with residential persistence and thus property ownership, so a large share of the electorate consisted of small property owners, many of them highly sensitive to any burdens placed on property ownership. "Within the precariously balanced family economy of the small ... property-holder, any proposal for the expansion of the public sector had to be balanced against the only definite, direct, and concrete consequence of that expansion: higher property-tax liability."[14] In election after election, voters displayed a willingness to sacrifice "pavements, piped water, and sewerage to their struggles for home-ownership."[15]

[12] McDonald 1990, p. 229-30.
[13] "Integrated Public Use Microdata Series: Version 3.0 [database]" 2003; cases weighted using the household weight.
[14] McDonald 1986, p. 256.
[15] Einhorn 1991, p. 114.

An even more general point is useful when trying to understand this sensitivity to property taxation. Compared to the alternatives, a tax that attaches itself to wealth is inherently threatening and thus prone to political opposition. In the case at hand, the property tax carried with it the risk of foreclosure. This risk is a general one, but it was more pronounced in the late nineteenth century than in more recent periods, due to the way property taxes were collected. In the modern period, property taxes are usually paid as part of a single monthly payment into an escrow account that then disperses funds at the appropriate times to the mortgage lender, to the insurance company, and to the property tax collector. From the owner's point of view, property taxes become one part of a much larger aggregated payment. Before these practices were started (in the 1930s), property taxes were paid directly by owners, typically in annual or semi-annual installments. The lumpiness of the tax collection process posed a substantial cash flow problem for any household that did not carefully manage its funds to save in preparation for the next tax assessment. Thus, the burden of the general property tax must be understood in a triple sense: the tax imposed a price on property ownership; it carried the threat of foreclosure for any households that either mismanaged finances or hit a streak of bad luck; and it represented a highly visible tax that made itself felt in large bites once or twice a year. The last two considerations are what have made the property tax such a political target — one more unpopular than a hypothetical tax that merely imposed the equivalent price on property ownership. As Erick Monkonnen has observed, "property acquisition has often been the major form of economic security and advancement, and when threatened, people are often mobilized more decisively along these lines than along any others."[16]

Even though the restrained fisc ultimately rested on the economic incentives and resulting political desires of the bulk of the voting population, which was highly sensitive to burdens attached to real estate, governance and fiscal policy under typical

[16] Monkkonen 1995, p. 78.

circumstances tend to be heavily influenced, especially in the crafting of specifics, by political and administrative leaders, along with influential business groups within a locality or state. If there was a low-tax consensus during the late nineteenth century, the extent to which it truly was a popular consensus probably mattered less than the fact that the consensus was widely held among opinion leaders. At a minimum, we can say that the low-tax consensus was "a set of ideas shared by political actors and their editorial spokesmen and fiscal policymakers."[17]

As during the antebellum period, within this low-tax consensus there were also leading figures who advocated a more active role for government, particularly in the form of projects that would foster economic development of one sort or another — city or state boosterism. In addition to facing popular opposition to the rising tax burdens that such activities would require, these leaders were also frustrated by the difficulties inherent in any promotional efforts by government — namely that some areas or sectors would benefit disproportionately. Robin Einhorn's history of Chicago during the nineteenth century provides an illustrative example. As the city matured, economic development created a more diverse set of commercial interests (commodities, banking, manufacturing, and so forth) that went beyond the real-estate focus of elites who dominated the city's early history. Whereas developmental projects during the early period had succeeded under a general appeal of fostering citywide growth, achieving political consensus for such projects proved more difficult as the complexity of Chicago's urban economy increased and the interests of its elites and leading business sectors proliferated. Faced with such limits, Chicago leaders pursued their developmental goals within a set of political and institutional arrangements that Einhorn calls a "segmented system" — that is, a system that tried, to the extent possible, to segment or privatize the costs of government projects. The same political problem and an analogous political solution was discussed in Chapter 5, specifically the use of ad valorem property taxation as a device that roughly distributed burdens in proportion to the financial gains that real

[17] McDonald 1986, p. 119.

estate owners would realize from development projects. In addition to ad valorem taxation, Chicago deployed other fiscal instruments that were aimed even more explicitly at the goal of aligning the costs and benefits of specific projects. Perhaps the simplest was the special taxing district, which allocated costs by drawing lines on the map: such a district might be used, for example, to fund street lighting or bridge improvements.[18]

The more general tool used by Chicago and other cities to privatize the costs of development projects was the special assessment, which was used most extensively for urban street and sewer improvements. Both the general property tax and the special assessment emerged during the 1830s. Einhorn argues that the conceptual separation of special assessments from the general fund was an important component of the larger fiscal ideology of the nineteenth century. One should emphasize that special assessments were not a dominant feature of the nineteenth century fisc in absolute quantitative terms. For example, in 1890 and 1902, less than 5 percent of local government revenue came from special assessment — not much when compared to the general property tax. Granted, these statistical observations are later than one would like: special assessments might have played a larger role during the mid-to-late nineteenth century, and they almost certainly did play a larger role in specific localities. In any case, even though it was a secondary revenue instrument, special assessments were very important for certain kinds of government activity and they shed light on the broader fiscal climate.

At the beginning of the nineteenth century, a sharp distinction was not maintained between the special assessment and property taxation. "Assessment" was generally synonymous with "rates" or "taxes," and property taxation tended to be particularized anyway. According to Stephen Diamond, "some judges conceived of the special assessment simply as an example of local taxation, responsive to a traditional taxation

[18] Einhorn 1991.

imperative that the area assessed be benefited by the improvement," and "assessments by the benefit to individual lots were not sharply differentiated from assessments apportioned by some other rule."[19] Enforcement of the property tax and special assessments were similar as well: like the property tax, a special assessment was a personal liability, for which property could be seized. Not until later would the special assessment, at least in theory, become enforceable only through a lien on property.

As the special assessment evolved, legal decisions placed a greater rhetorical emphasis on the precise computation of benefits. For a short time in the mid-nineteenth century, supporters of special assessment sharply contrasted it with the general property tax — specifically with an eye toward the distinction between private and public purposes. Such proponents called for a precise calculation of the benefits received by each lot from a given expenditure, and they hoped more generally for broader application of the benefit principle to public finance. Under a strict benefit logic, the particularized benefits could be computed and the overall project could be judged — that is, whether it should be undertaken at all.[20]

In most practical applications, however, general formulas (rather than precise benefit computations) were used when making special assessments. An assessment might be based, for example, on a property's square footage or frontage. In addition, the maturation of urban environments strained the benefit logic still further, as special assessments were used not just for street openings but for major maintenance work on existing streets — grading, paving, and resurfacing. The underlying assumption of particularized benefits was difficult to sustain when many of a project's benefits would so obviously redound to through-traffic rather than just to abutting properties.[21] As special assessments with wider implications became more common, criticisms and legal

[19] Diamond 1983, p. 207.
[20] Diamond 1983.
[21] Diamond 1983, p. 218-21.

challenges arose from landowners who had not petitioned for the project — with some justification, in Diamond's evaluation:

> The special assessment was evolving into a technique for disguising a raid on the public treasury, an obvious and vulnerable target, given the great profits to be made, particularly in paving contracts. In New York City, in the years immediately following the Civil War, the Tweed Ring gave its members and favored contractors fortunes through extensive, often unnecessary, and usually overpriced street construction.[22]

Such abuses notwithstanding, fiscal arrangements like special assessment had the effect of localizing costs somewhat, and thus of reducing the need to achieve wide political agreement on certain kinds of projects. It seems likely that the use of special assessment — and other privatizing or segmenting fiscal devices — represented an ideological commitment by the political establishment to a certain way of conducting fiscal business. In addition to their advantages as tools for advancing developmental projects, these types of fiscal devices also had the desirable characteristic for urban elites in placing narrow limits on the amount of their wealth that could be subject to more general forms of taxation. Most likely, however, such devices were embraced not primarily because of an ideological commitment on the part of political elites to the underlying philosophy of privatization, but because urban leaders were frustrated in their promotional efforts by a political economy that placed severe limits on taxation. A similar dynamic was noted in Chapter 5 regarding the antebellum period, during which it was not clear whether advocates for the general property tax believed deeply in the philosophy of the tax or whether they simply saw it as a pragmatic way either to achieve political agreement for a development project (boosterism) or to advance some larger political agenda (ad valorem taxation as a part of the negotiation over apportionment, democratization, and the balance of power in a state).

[22] Diamond 1983, p. 224.

Within general government — that is, the part of government operations funded mainly by the general property tax rather than special assessments or other privatizing devices — the growth of the public sector, if there was any, tended to proceed in an incremental fashion, with many decisions being made among department leaders, committees, and others deeply involved in the process. Thus, whether it be the use of devices like special assessments or in the way that general funds were managed, the procedures of fiscal decision-making were closely managed. As Einhorn observes, "much taxing and spending in the nineteenth-century American city was isolated by law from the majoritarian, electoral arena commonly known as 'politics'."[23]

These fiscal devices and practices existed within a wider ideological environment that was in some sense a Jacksonian legacy: an underlying distrust of government activity; a concern that government programs would redistribute resources and privileges to the well-connected; a tendency to place constitutional or statutory limits on tax rates, assessment growth, or indebtedness; along with a distrust of centralization and a preference for local administration.

Pressure for spending growth

In spite of the restraints imposed on the fisc by prevailing ideology, by competitive partisan politics, and by the economic incentives facing the electorate, state and especially local governments did grow during the last half of the nineteenth century. As noted, much of this growth falls within a routine incrementalism — expansion of programs or departments roughly on pace with demographic or economic growth, and with the decision making occurring mainly through administrative jostling among departments.

[23] Einhorn 1991, p. 8.

That said, the latter part of the nineteenth century also witnessed a rising set of groups petitioning governments to expand their activities. From studies of urban fiscal affairs, for example, we know that the politics of taxing and spending was being transformed near the end of the nineteenth century from a competitive battle between the major parties based on commitments to keep tax burdens low to an environment in which political entrepreneurs were able to forge winning coalitions built partly upon promises for an expanding menu of government activity. Within cities some of the key groups lobbying for additional spending were merchants and professionals wanting greater infrastructure investment in downtown areas and neighborhood groups wanting the extension of various urban and educational services to their areas. Some of these were projects that might have been funded in the past under the privatizing mechanisms like special assessment, but now they were being pressed forward as requests made against the general government budget.

At the state level similar demands for new kinds of spending were being made. Although the local government sector did start to grow faster than the overall economy starting in the 1880s, state government just managed to keep pace with GDP until roughly 1910; thus, when we speak of new revenue demands being placed on state government during the late nineteenth century, we are talking primarily about a reorientation of spending priorities rather than growth in the overall size of government relative to GDP. The most substantial of these reorientations was the decline in transportation spending, which had dominated many state budgets during the antebellum period, and the rise of education spending (recall Figure 18). During the last third of the nineteenth century education was typically the largest special fund item in state budgets. State spending on education often took the form of revenue raised by the state and then transferred to local governments, although there was considerable variety in the relative balance between state and local funding sources for education. The South, for example, was noteworthy both for its lower level of education spending and for its greater reliance on state revenue. Even within regions there was considerable variation: New York (like

California) was evolving toward a system of education finance that depended on larger infusions of state revenue, while Massachusetts still relied heavily on district-level taxes. In addition to increasing their relative commitments to education, state governments also devoted a larger share of resources to various state institutions, such as prisons, asylums, reformatories, hospitals, schools for the deaf and blind, and universities.[24] Beyond these major growth areas — urban infrastructure, education, and state institutions — we find other areas that received both intensified lobbying and higher levels of spending. In particular, a diversifying set of business interests sought various kinds of government help in stabilizing markets or gaining competitive advantage.[25]

The general property tax problem

The misplaced emphasis on revenue demands in the existing historiography

The general property tax "problem" can seem quite complex. Over the course of several decades and across every state, various criticisms of the general property tax were made and grievances against the system were aired. During the same period many fiscal reforms were proposed. Some of the changes that were advocated and perhaps implemented were conceived and fully intended as solutions to problems in the general property tax system. Other fiscal changes might have been driven by other considerations but were justified by drawing on the common ideological vocabulary of the era — one that included stock criticisms of the general property tax system. The true motivations for any given reform were probably a mixture, depending on the specific reform and the proponents. This complexity — the long time frame, the geographical and chronological diversity, and the wide variety of complaints, remedies, and underlying motivations — is reflected in the existing historiography.

[24] Higgens-Evenson 2003, especially Chapter 2; Laichas 1999; and Higgens-Evenson 1998.
[25] Yearley 1970, W. Elliot Brownlee 1974, and Sklar 1988.

Within this complexity there is nonetheless a dominant working theory. In rough terms, this theory corresponds with the first of the three ways outlined at the start of this chapter for evaluating the transition from the general property tax to corporate taxation. Under this view, the adoption of special property taxes was a pragmatic and fairly neutral reform driven by the concerns of experts and administrators who had concluded that the general property tax was unworkable under new socioeconomic conditions.

More specifically, this interpretation proceeds along the following lines: socioeconomic change leads to demands for new and expanded government activity; growing needs lead to strengthened efforts to collect more revenue within the existing general property tax system; but the system quickly runs into formidable economic, administrative, and political limits; and this causes experts, officials, and ultimately political leaders to conclude that the old fiscal system is inadequate to meet the demands of a new economy. In the case at hand, various fiscal and administrative reforms were proposed to improve the general property tax system or to find replacement revenue sources. And the key part of the argument is this point: even though such reforms might have been justified by noting how they would resolve the inequities and inefficiencies of the general property tax system, the primary goal was to increase revenue. State revenue capacity would be increased directly by adding a new fiscal device — special property taxes. Local revenue capacity would be increased indirectly: if the state surrendered its claims against the general property tax, localities would be able to tap this revenue source up to its inherent economic, administrative, and political limits.

This working theory about the primacy of revenue needs in driving changes in the tax system is influential in the existing historiography. The approach is sometimes broadened into the proposition that revenue demands are the fundamental force behind changes in tax systems more generally. For example, a classic fiscal study by

Mabel Newcomer puts forth that argument: her continual theme is that tax instruments in the United States have evolved in response to growing needs or demands for revenue. Similarly, histories of the American property tax by Sumner Benson and Glenn Fisher emphasize revenue demands and revenue crises as key motivating forces for tax changes. And recent fiscal histories of the period by Rudy Higgens-Evenson and Ajay K. Mehrotra reserve a primary position in their respective narratives for new revenue demands in causing states to search for new tax instruments to replace the general property tax.[26]

Even in work that does not place so much emphasis on new revenue demands as the primary motivator for changes in tax policy, there is a nearly universal tendency in the historiography to accept the conventional diagnosis of the general property tax — namely, that the tax had become dysfunctional and that its goal of tapping forms of wealth beyond real estate was a hopeless endeavor, which is effectively another way of saying that the general property tax was incapable of yielding sufficient revenues. Tied to this diagnosis is another prevalent feature of the fiscal historiography: its tendency to be more interested in the question of government growth (or lack of it) than in the policy choice among tax instruments.

In its most direct formulation, the idea that revenue demands were the primary motivator in moving state governments from the general property tax to special property taxes begins by noting the regional pattern: states that were early in replacing their general property tax were concentrated in the Northeast. As Newcomer observed in 1917, the movement of state governments away from the general property tax "followed industrial development."[27] The logic is familiar: socioeconomic development simultaneously creates needs or demands for more government expenditure and offers new sources of wealth to fund these expenditures. At least superficially, the fiscal data

[26] Newcomer 1917, p. 29, 182; Benson 1965; Fisher 1996b; Higgens-Evenson 2003, p. 8; and Mehrotra 2003; Mehrotra 2008.
[27] Newcomer 1917, p. 17.

appear to support this logic: in the late nineteenth and early twentieth centuries we observe rather strong statistical associations between (a) reliance on the general property tax and (b) both region and the level of industrialization in the states (see Tables 9 and 10). In the late nineteenth and early twentieth centuries, industrialization had proceeded most fully in the Northeast, and state governments in this area tended to be the ones that had gone the farthest in abandoning the general property tax.

Unfortunately, the analysis of this issue has not gone very far beyond the familiar citations of fiscal reformers who talked about the general property tax's liabilities as a revenue generator and an impressionistic examination of the regional patterns just noted, followed by the usual functional formulation, in which industrialization leads to new revenue needs that the existing tax instrument supposedly cannot deliver. A key problem with this line of argument is that the quantitative evidence supports the least compelling, least determinative aspect of the case — namely, the regional pattern. We cannot be certain whether a regional pattern in general property tax reliance indicates the socioeconomic causation being proposed or the workings of some other regionally concentrated phenomenon.

One way to assess the idea that revenue demands were the chief motivators causing states to move away from the property tax is to test for statistical association between general property tax reliance and revenue growth. If the general property tax had truly become dysfunctional and was unable to yield revenues sufficient under modern socioeconomic conditions, we might expect to observe that states that had moved away from the general property tax were subsequently able to support larger public sectors. In other words, we should observe a negative statistical relationship between size of government and reliance on the old, supposedly dysfunctional tax. States that shifted to new fiscal instruments should also be the ones that were able to expand their menu of governmental functions in response to socioeconomic development, and in the

aggregate this expansion should be reflected in a higher volume of government revenue collections.

This set of developments is exactly what Higgens-Evenson describes in *The Price of Progress*, a 2003 book that focuses directly on the topic at hand — state fiscal policy and politics. One of the book's organizing themes is a contrast between "corporate states" and "Jeffersonian republics." The corporate states adopted new fiscal instruments, moved away from the general property tax, and increased their commitments to a variety of new spending programs. The Jeffersonian republics kept at least one foot in the nineteenth century: they continued to rely significantly on the general property tax, and the growth of their public sector was less ambitious; movement to new tax practices and to new spending commitments tended to be more incremental in character. The corporate states tended to be found in the Northeast and, to a lesser extent, the Midwest and Pacific coast (examples in Higgens-Evenson's study include New York, Pennsylvania, Wisconsin, and California), while the Jeffersonian republics were usually found in states with more agricultural or extractive economies. Even though Higgens-Evenson's study includes an effort to assemble revenue and expenditure data for 17 states, he does not subject the proposed contrast between corporate states and Jeffersonian republics to quantitative comparisons, let alone any formal statistical testing.

When we test for the contrast that is proposed by Higgens-Evenson and that implicitly resides in much of the fiscal historiography, we do not find a compelling pattern. States that moved away from the general property tax did not, in the aggregate, move toward more expansive fiscal practices than the states that continued to rely on the older tax instrument. Table 11 summarizes the findings. It provides correlations between general property tax reliance and government size for five years from 1890 to 1922. Government size is measured as total revenue relative to a state's population and, when available, its economy (using personal income as a proxy for gross domestic product).

Conceivably, the effect of moving to a new state tax instrument could express itself by leading to a more expansive fisc at either the state level or at the combined state-local level, so both are explored in the table. If we are focusing on the shift from the general property tax to special property taxes (or corporate taxes), 1922 is the practical end point for such an analysis. Beginning in the 1920s, auto-related taxation became a significant component of state budgets (recall Figure 16), which adds an entirely different component to the portion of tax revenue coming from sources other than the general property taxes — a component with a very different political and economic dynamic.

The results in Table 11 are striking in their lack of support for the working theory being tested — namely that movement away from the dysfunctional general property tax should lead to a more expansive fisc. The findings are easily summarized. From 1890 to 1913, no clear pattern emerges: the correlations in 1890 and 1913 are weak, and in 1902 the moderate negative correlations (the correct sign for the theory being tested) are counterbalanced by moderate, though slightly weaker, positive correlations (the wrong sign) at the combined state-local level. The only clear and consistent pattern emerges at the end of the time period, starting in 1917 and becoming strong in 1922. But the statistical relationship points in the wrong direction: states with a greater reliance on the general property tax had relatively larger public sectors. To put the same point differently, the period when the Northeast was moving away from the general property tax was the period when the Northeast was adopting a more constrained fiscal posture relative to the revenue effort of other regions.

Of course, it is quite possible that officials, experts, and fiscal reformers viewed replacing the general property tax as a way to provide more revenues for the public sector but were proven wrong by subsequent history. Regardless of what contemporaries might have said or hoped for, the fiscal outcome is not one that

supports a strong linkage between movement away from the general property tax and fiscal expansion.

The difficulty of taxing intangible wealth and property generally

At least for those reformers who perceived the general property tax problem fundamentally as one of revenue sufficiency and who hoped that replacing the state-level tax with various types of special property taxes would lead to a more expansive fiscal environment, the change in tax instruments appears to have failed in its intended purpose.

But revenue sufficiency was hardly the only criticism lodged against the general property tax system. Indeed, even though fiscal historiography has tended to view the shift away from the general property tax through an analytical framework more concerned about the question of government expansion than the question of different tax instruments, the strength of the low-tax consensus during the nineteenth century might suggest that the main concerns motivating fiscal reform would have been something other than the goal of finding a revenue instrument capable of generating more revenue for the state. One such concern dealt not with the general property tax's failure to yield sufficient revenue in the aggregate but with its limitations in collecting revenue from a particular source. This was the "intangibles" problem.

A note on terminology is useful before proceeding. The general property tax, at least in theory, was supposed to tax all significant forms of wealth. The most obvious was real estate, which was also called real property or realty (land and improvements made to the land, particularly structures). The catch-all term for all other forms of wealth was personal property or personalty, which included both tangible property and intangible or financial property. In terms of quantitative and political importance, financial assets (intangible wealth or simply intangibles) were the most significant component of

personalty. Either type of property — realty or non-realty — could be owned by individuals or by businesses and corporations. In the latter case, the use of the term personal property sounds inappropriate even though some government accounting documents use such terminology in an all-encompassing way. In this study, I will tend to use non-real property when the important contrast is between real estate and other types of wealth; intangible property when the point is to emphasize the financial character of the wealth; and corporate property when the point is to identify corporations as the target of the wealth taxation.

The problem of taxing intangible wealth, and non-real wealth generally, returns us to the broader argument commonly made by contemporaries against the general property tax — namely, that the tax might have been appropriate for a simple economy where most wealth took the form of realty that was readily visible for assessment and taxation, but that it did not suit a modern economy based on a more complex wealth structure. It particular, it was not well-equipped to handle the increasing importance of intangible property, which often represented future claims on income from wealth rather than being concrete items of wealth themselves.[28] To these critics, the core problem was a mismatch between tax instrument and economic structure: the general property tax might have been functional in a primarily agricultural economy, but it failed to tap more complex forms of wealth, especially financial wealth. One history of the American property tax takes this criticism and argues that it is but a specific example of an ancient problem, one seen in Europe and the Greek and Roman empires: "the perpetual problem of the property tax — how to discover and assess personalty and intangibles."[29]

The difficulty of taxing intangibles — and non-realty generally — operated along three dimensions: visibility, valuation, and tax rate. The issue of visibility is straightforward: unlike real property, which is readily observed by government officials and fellow citizens, intangible wealth does not assume a physical form. Its existence is known only

[28] For this insight see Newcomer 1917, p. 29.
[29] Benson 1965, p. 13; also see p. 21, 52, 72. Also see Hale 1985, p. 387.

through a familiarity with a taxpayer's financial holdings. Even if intangible assets could be identified for taxation, the next step — assigning them a value — was not always an easy matter. Some types of assets were readily valued either because they were traded frequently in financial markets or because their value was stated explicitly in financial records. Other kinds of non-realty, however, required special expertise to assign them accurate values. Corporate or business property provided many examples. Finally, even if all non-realty could be identified and reasonably assessed, many critics argued that the imposition of the prevailing general property tax rates would impose an onerous tax burden. Depending on the procedures used for valuation, general property tax rates might have claimed a large share of the income stream from an intangible asset. For example, a 1.5 percent general property tax imposed on securities within an economy where prevailing interest rates were not much higher than 4.5 percent amounted to an effective rate of income taxation of 33 percent — extremely high for the period and particularly unrealistic given the ease with which intangible assets could escape assessment. The result was a "system of confiscation tempered by favoritism."[30]

Note that this line of criticism goes to the heart of the general property tax, questioning its underlying assumption that all forms of wealth can be treated as belonging to a single class amenable to a common tax rate. Related to this issue is another criticism that was leveled against the general property tax — one that offers an opportunity to make an important technical point. Wealth as an economic concept differs significantly from wealth as a fiscal concept under the general property tax. When economists measure wealth they typically focus on physical assets, such as land and structures, equipment and other producer or consumer durable goods, inventories, livestock, and crops.[31] Purely financial assets are typically excluded from such measures, partly because these assets represent financial claims against physical assets held by some other party. For example, to include corporate stocks owned by individuals when

[30] For such examples see Yearley 1970, p. 87; National Industrial Conference Board 1930a; Page 1916, p. 747. Quote from Bullock 1916, p. 22.
[31] For example, see *Historical Statistics of the United States* 2006, Tables Ce209-310.

calculating national wealth would result in double-counting, because these stocks represent the wealth of the underlying corporations that issued the stock. By contrast, when a fiscal system based on the general property tax measured wealth, it showed little regard for such double-counting. Under a pure general property tax, any party that owns a valuable asset is supposed to pay tax on that wealth, even if the asset is financial in character and thus, in some sense, derivative of underlying tangible assets.

With these concerns in mind, some critics accused the general property tax of treating intangible wealth unfairly on two fronts: in some cases, prevailing general property tax rates were quite high relative to the income stream of the financial assets being taxed; and the taxation of some financial assets represented a form of "double taxation" — the same wealth being taxed twice (for example, corporate wealth taxed both at the level of the corporation and at the level of individual owners of corporate stock).

The difficulty of taxing non-realty is reflected in aggregate quantitative terms in the data on assessed valuation during the last half of the nineteenth century. Both contemporary critics of the general property tax and fiscal historians have cited data from the Census Office showing rather striking trends in the relative assessed valuation of realty and personalty. For example, from 1860 to 1880 the total assessed value of personal property in the United States actually declined (by 20 percent), even though we have reason to suspect that the relative importance of this type of wealth was increasing and even though the assessed valuation of real property increased by over 80 percent.[32] Similar findings were often cited for individual state and local governments.[33] The economic trend and the fiscal trend were in contradiction: we suspect that non-realty was growing in both absolute and relative terms, yet the general property tax system was becoming more dependent on realty. Either the fiscal system was being less

[32] These data from the Census office are cited uncritically in many fiscal studies; for one such example see Benson 1965, p. 54. A closer analysis of it this data, which is presented in Table 12, occurs later in the discussion.

[33] For Illinois, see Labovitz 1936, p. 15. For various cities, see Harley Leist Lutz 1918, p. 30; and Benson 1965, p. 57.

vigorous in seeking out such non-real wealth or citizens were less likely to report such wealth, or both.

Although most discussions of the general property tax emphasized its difficulties in reaching non-real forms of property, one should emphasize that most of the problems noted above also applied to realty. Real estate was not easily concealed, of course, but certain kinds of real estate were difficult to value or raised compelling equity issues. Just as intangible wealth posed various questions about the appropriateness of a single rate being applied to all kinds of property, so too can we find seeming unfairness in applying one rate to all types of real estate: should rural land be taxed at the same rate as urban land; should residential property be taxed at the same rate as commercial property; should special provisions be made for persons (often the elderly) who have acquired ownership of real property but no longer have sufficient income to bear ongoing property tax burdens? To put many of these questions in the form of concrete examples, should a forest, a wheat farm, a fishing dock, a meat processing plant, a mansion, a tavern, and a retired workman's home be taxed at the same rate? Proponents of the general property tax answered yes, noting the universality and simplicity of a common rate applied to all kinds of wealth; however, many officials, policy makers, experts, and citizens found it difficult to defend the ideals of the general property tax when faced with the seeming injustices of specific cases.

On top of all of these problems was a more general one — namely, the unpredictability of wealth taxation as it was filtered through the political and administrative system. Depending on the kind of wealth one held (how easy was it for tax assessors to locate?) and the tax jurisdiction (how aggressively were efforts made to identify all forms of wealth?), one might end up paying effective tax rates very different than those borne by individuals who, when evaluated by economic or even common-sense standards, had roughly similar resources. And even within the realm of property already identified for taxation, variation in valuation rules and practices, both legal and extralegal, could

result in tax burdens that fluctuated dramatically across different classes of property holders, across different economic sectors or business interests, and across the income scale.

The fiscal literature is full of anecdotal evidence, but very little systematic empirical analysis, about which economic groups or types of property received favorable or unfavorable treatment under the general property tax. Teaford, for example, states that the tax worked against owners of cheaper residences and gave preferential treatment to more commercial, entrepreneurial, or up-scale properties.[34] Many analysts claim that real estate was overtaxed and argue that the growth in the relative prominence of non-real wealth exacerbated the inequalities of the general property tax system.[35]

Undervaluation and the supposed dysfunction of the general property tax system

Although the impression that the general property tax system overtaxed real estate was probably correct and does find some quantitative support, the problem of under-assessment was hardly confined to non-real forms of property. In fact, the single largest form of evasion under the general property tax was probably the systematic underassessment of realty by local governments. Under-assessment by local governments came in both legal and extralegal forms.

The fiscal historiography contains many anecdotal reports of the under-assessment of real estate; however, such details are probably less important for understanding than the general processes by which under-assessment occurred. In some cases, common viewpoints between assessors and the local taxpaying population might have played a role: for example, rural assessors were often farmers themselves and thus were sympathetic to the common idea that real estate in general, and rural real estate in

[34] Teaford 2002, p. 302-4.
[35] Harley Leist Lutz 1918, p. 5.

particular, was unduly burdened by the prevailing system. In other cases, local politicking probably influenced the valuations considerably. Stark's fiscal history of Illinois and Chicago provide numerous examples, and Yearley observes that "realty fled so effectively in New York City and valuations were manipulated so extensively that tax experts regularly described them throughout the late nineteenth and early twentieth centuries as utterly chaotic," so much so that "Manhattan became a crazy-quilt of values. Banks, trust companies, and breweries located side by side were frequently assessed at ten to thirty percent differentials."[36]

In addition to these sorts of particularistic deviations from the general property tax's ideal of taxing wealth at its market value, one can point to a more general phenomenon: competitive undervaluation. Local governments controlled two key variables affecting the property tax burden. One was the value assigned to a property and the other was the tax rate. A local government's total revenue would not necessarily be adversely affected by undervaluing real estate, because the jurisdiction could simply adjust the other variable — the tax rate. Indeed, the mechanics of property tax administration followed this sort of path: first properties were assessed; then the government determined its expenditure needs; and finally the tax rate was computed to yield the needed revenue. At least in theory, a local jurisdiction could act strategically on behalf of its residents by keeping its own valuations relatively lower than those of other jurisdictions, thus reducing the jurisdiction's contribution to tax levies imposed by higher levels of government (the state).

There were practical limitations on the extent to which the strategy of competitive undervaluation was pursued. The tax rate was the most visible and easily understood aspect of the general property tax system and as such was subject to political limitations. Politicians actively competed with each other over commitments not to

[36] Quotes from Yearley 1970, p. 67 and 69; also see p. 54-6 and 66-72 for more details on realty evasion in both urban and rural contexts. On Illinois see Bennett S. Stark 1982, notably p. 94-5, 103, 118, 131-2, 144-6, and 171-2.

raise the rate. To the extent that local politics restrained flexibility on the tax rate variable, jurisdictions had less freedom to manipulate valuations without suffering a revenue loss. In addition, political limitations on the tax rate were also imposed by some state governments with the intention of forcing local governments to experience the revenue pain of undervaluation. Other states tried to use state boards of equalization (or other central agencies) to limit undervaluation and to impose some degree of consistency in assessment across jurisdictions. Such efforts had limited effectiveness, however. Lutz's detailed study of this topic concluded that "local boards of equalization were unable to cope with the powerful tendencies which were setting in, during the middle of the nineteenth century, toward evasion and undervaluation, and in this respect most of the states have had similar experiences."[37]

Evasion and undervaluation, then, were growing trends during the latter half of the nineteenth century — at least this is what most of the fiscal literature tells us. Moreover, there might be some support for this idea in estimates produced by the Census Office charting the course of assessed valuation relative to true property values. Those census estimates, along with a large volume of anecdotal evidence of particular cases of evasion, underassessment, and discrepancies in valuation, are often cited in the literature.[38]

Greater caution is probably warranted, however, in interpreting such evidence. Even though undervaluation and evasion were prominent features of the general property tax system, the matter of historical trend is less clear-cut. A rough measure of the efficacy of the general property tax system in tapping property wealth is shown in Table 12 — specifically, assessed valuation as a percentage of true value. These estimates from the Census Office have been cited often; however, the change in the measure from 1860 to 1870 is so extreme as to be unbelievable, and we should not accept these numbers uncritically. In fact, the Census Office itself did not accept these estimates at

[37] See Harley Leist Lutz 1918, p. 17; also see p. 30.
[38] Yearley 1970, especially Chapter 3.

face value, but their technical documentation has often gone unheeded by commentators and social scientists who have cited these figures. The fundamental problem is that the methods used to create the estimates for "true value" in 1850 and 1860 differed from those used in subsequent years. This fact was noted by some contemporary experts, who complained about the Office's presentation of the estimates within a table implicitly suggesting that they formed a comparable time series. The Office even quoted at length from one such complaint. For 1850-1860 the estimates were created by asking local officials to report assessed valuation and true valuation for their jurisdictions. Regarding the latter (true valuation), officials were instructed to report the amount that would need to be added to assessed value to compensate for the undervaluations of the assessors; and they were not asked to estimate amounts that would need to be added to compensate for property exempt from taxation or property that evaded assessment altogether. In 1870 the Census Office again created estimates by querying local officials, but this time the instructions were to estimate true valuation by considering not just undervaluation of assessed property but also the true value of property that never made it on the tax rolls, either because of legal exemption or illegal evasion. Finally, for 1880-1900 the estimates were created somewhat more independently by the Census Office: "Inquiries concerning the relation between the assessed and true value of real estate were sent all over the country, and from the returns the value of this class was property was determined. The value of other property was obtained from official and other sources with little or no reference to the assessed valuation."[39] To summarize, the figures for 1850-1860 are more accurately described as estimates of the true value of *assessed property*, whereas those for 1870-1900 attempt to provide, however roughly, an estimate of the total value of *all property wealth*.

Thus, the disjuncture in Table 12 should not be taken at face value as evidence for a substantial *change* in the ability of the general property tax system to tap property

[39] U. S. Bureau of the Census 1890, Part II. "Valuation and Taxation", p. 10.

wealth. Nonetheless, there might have been a trend toward declining assessment and rising evasion during the latter half of the nineteenth century. On one hand, we observe in Table 12 a modest decline in assessed value as a percentage of true value from 1870 to 1900 — a period during which the estimating methods were somewhat more consistent. In addition, the assessment of personal property appears not to have been keeping pace with real estate. The assessed value of personal property should not have been flat or even declining during the 1860-1880 period; to the contrary, given the nature of the economic transformations underway, one expects that non-realty should have been increasing in relative importance. On the other hand, these modest trends could represent improvements in measurement rather than worsening of the fiscal system's ability to tax wealth. We do know that the 1850 and 1860 values are affected by measurement issues; we simply do not know the magnitude of such measurement problems. It is also reasonable to expect that the most poorly measured component in Table 12 would be the estimates of the true value of personal (or non-real) property. If the accuracy of this measure improved over time — perhaps a reasonable assumption — we would see the modest declines shown in Table 12, even if the underlying ability of the general property tax system to tap property wealth had not changed at all. In addition, when viewing the last column in the table, one must bear in mind an inherent limitation of such data. The measurement of assessed value is a product of the general property tax system itself. "Assessed value" is the value of property subject to ad valorem taxation under the rubric of general property taxation. During this period some state governments were shifting some types of property out of the general system and taxing it through other mechanisms, typically special property taxes or corporate taxes. Under the accounting used by the Census Office, such property wealth would then disappear from the computation of assessed value. Thus, part of the explanation for the seemingly flat or declining role of personal property within the general property tax system — even though we suspect that such property was rising in true economic importance — might be an artifact of changing fiscal policy within a static accounting framework.

It is not entirely clear, then, that the general property tax system was becoming markedly more dysfunctional in its ability to tap non-real forms of property wealth;[40] nor, projecting forward, can we make a strong claim about the impracticality of wealth-based taxation in a modern economy. Indeed, many of the same administrative and technological improvements that ultimately would make mass income taxation viable were precisely the kind of changes that would have increased the efficacy of wealth-based taxation in tapping non-real forms of property.

The general property tax as a political problem

Even though we do not find ironclad evidence of a trend toward fiscal dysfunction — at least judging by the aggregate measures considered here — we do find a large volume of expert and political complaint about such matters. Although such complaints may have been exaggerated, they were able to define the political reality. What mattered politically, for example, was less the exact degree to which non-real, corporate, or intangible properties were escaping their fair share of the general property tax burden than the perception of this evasion.

As we turn attention toward a more explicit consideration of politics, the supposed failure of the general property tax to tap new forms of wealth bears closer scrutiny along another front. One must ask, why not crack down on enforcement and significantly increase the tax base, which in turn would make lower tax rates possible? The general impression is that very few serious efforts were made to ensure the complete assessment of intangibles under the general property tax system. This point is conceded, for example, by Leland, an author sympathetic to the general thrust of tax

[40] Also see Bullock 1916, p. 19 and 31 for estimates of the percentage of state and local taxes from real estate in Massachusetts: 58 percent in 1874 and 62 percent in 1907. The trend is in the right direction, but the magnitude of the shift hardly supports a strong argument about the dysfunction of the general property tax system.

reform during the era — namely, shifting non-realty out of the general property tax system and instead taxing it under various kinds of special property taxes.[41] In the final analysis, the intangibles problem, like the wider general property tax crisis, was probably more about political will — reluctance of the political system to implement the principles of the general property tax — than about inherent economic or administrative limits of wealth taxation.[42]

Understood in these terms, the core problem with the general property tax was a self-reinforcing dynamic that undermined its political acceptance.[43] Schematically, this dynamic can be sketched by beginning with rising pressure to increase expenditures — whether from routine bureaucratic and incremental budget processes within governing jurisdictions or from political lobbying by outside groups. Whenever general property tax burdens rose to satisfy such expenditure growth, a common response was evasion. This occurred at the individual level through under-reporting of any kinds of property that could be concealed. More importantly, it occurred at the system level as local governments engaged in competitive undervaluation and other practices that reduced assessments. Such responses were themselves self-reinforcing: lower valuations for visible wealth, especially real estate, meant that the general property tax rate needed to be higher than it would otherwise have been to support a given level of government expenditure; and this higher tax rate increased the incentives for individuals to conceal less visible forms of wealth. The response from those charged with trying to maintain or, in some cases, increase government revenue was to enforce the general property tax more effectively, whether through centralized assessment practices or other kinds of administrative reforms. Occasionally attempts were made to crack down on the taxation of personalty,[44] but the more common response was to take the easier route and to

[41] See Leland 1928, p. 414.
[42] See McDonald 1986, p. 44 for similar observations concerning property tax evasion.
[43] For similar formulations see Newcomer 1917, p. 30; Yearley 1970, p. 33 and 77; Harley Leist Lutz 1918; McDonald 1986; McDonald 1990; Bennett S. Stark 1982.
[44] For examples, see Yearley 1970, p. 57-9 on California and Teaford 1984, p. 301 on Ohio.

tighten up on the taxation of real property, which had the effect of incrementally transforming the general property tax into a real estate tax.[45]

This combination of rising relative burdens on real estate, increased enforcement efforts on certain fronts, and continued evasion led to a crisis of legitimacy for the general property tax. The material response has already been noted: each administrative reform may have represented a victory for the ideal of taxing property wealth at its full market value, but "rather than increasing the legitimacy of government expansion, ... these actions caught more taxpayers in the fiscal net and, therefore, provided a growing material basis for the contest over that legitimacy."[46] For example, a major reappraisal of property was conducted in Kansas in 1908, but the administrative success of this reform had the political effect of undermining support for the general property tax and for tax reform more broadly.[47] Similarly, when Republicans assumed power in Wisconsin in 1900 they turned to tax reform, strengthening the enforcement of the general property tax as it applied to personal property; however, this effort quickly ran into objections from the coalition's own members, who complained and lobbied for various kinds of exemptions from the general property tax.[48] Examples like these can be found across both time and geography as state and local politicians and officials navigated the adverse politics of general property taxation.

Beyond the material response was an ideological one. Evasion — both real and the possibly exaggerated perception that others were evading on a massive scale — led to declining ideological support for the general property tax, which depended ultimately on the rather idealized notion of taxing all property in proportion to its market value.

[45] McDonald 1990, p. 229-30. Also see Bullock 1916, p. 15-15, 27-29, which describes such a dynamic in the Boston area: greater vigor in the enforcement of the general property tax led to a flight of wealth out of the city and into suburban communities.
[46] McDonald 1990, p. 230.
[47] Fisher 1996b, p. 141.
[48] W. Elliot Brownlee 1974, p. 49; also see W. Elliot Brownlee 1976.

Fiscal transformation amid political transformation

For many experts and reformers, the critique of the prevailing fiscal system was connected to a wider critique of the political system. The perceived administrative and fiscal shortcomings of the general property tax were serious; however, perhaps even more troublesome were the maladies in the functioning of electoral politics, and particularly the connections between the fiscal and political problems.

In addition, and quite independent of the diagnoses of fiscal reformers and experts of the time, we observe a suggestive relationship between political and fiscal developments during the era. Recall Table 6, which depicted the major regimes in American fiscal history along several key dimensions — government size, federalism, revenue structure, and expenditure structure. Even though one of the table's main points was to emphasize complexity and to indicate the difficulty of neatly identifying overarching regimes in U.S. fiscal history, there are three significant junctures that crop up in several of the dimensions. Roughly, these junctures occurred during the 1830s, 1900s, and 1930s, with the time of interest here (the 1900s) being the one that highlights the contrast between nineteenth-century and twentieth-century patterns: slow government growth versus rapid growth; fiscal localization versus centralization; the general property tax versus its modern replacements (at least at the state level).

This fiscal juncture coincides with a major transformation in electoral politics; thus, from the viewpoint of many of the period's experts, officials, and reformers and from the viewpoint of long-term historical change, we have reason to think carefully about the possible connections between fiscal and political developments.

The decline in voter turnout

The political transformation from the nineteenth-century pattern to the twentieth-century pattern, at the simplest level, was a significant decline in voter turnout. Outside the South, the American electorate was highly mobilized during the last few decades of the nineteenth century. With national, state, and local elections often held at different times, with many government posts being electives offices (typically with short terms of service), it might have seemed as though one political campaign or another was always underway. The scope of electoral activity was quite wide in terms of the number, variety, and popularity of political events, and surrounding these events was a wide array of social and cultural activities. This level of activity is reflected in statistics on voter turnout: for presidential elections it averaged about 80 percent for the period 1880-1896 — highest in the Northeast and Midwest, lower (but still high by historical standards) in New England, the West, and the South.[49] Moreover, unlike the pattern during the twentieth century, turnout appears to have been high across most social, occupational, wealth, and education categories, including the foreign-born. New voters (for example, migrants and the young) tended to be incorporated into the electoral rapidly — again, unlike the modern period, where age is a major determinant of voting.[50] Finally, both roll-off (voters failing to vote a complete ticket) and drop-off (turnout decline from presidential to off-year elections) were low as well. At least among the social group legally eligible to vote — adult males — the late nineteenth century was the period of greatest electoral mobilization in U.S. history.

Starting with the first election of the twentieth century, we can observe the beginning of a very different turnout pattern. As displayed graphically in Figure 26 and summarized in Table 13, turnout declined significantly: during the first two decades of the new century, it dropped nearly 20 percentage points, and this relatively low turnout pattern would persist. Kousser, Kleppner, and others have verified that turnout fell the most among lower socioeconomic groups, opening up significant socioeconomic differentials in electoral activity. Similar differences emerged along ethnic and particularly racial lines.

[49] Kornbluh 2000, p. 12-16.
[50] Kornbluh 2000, p. 19-20.

Although difficult to document with the kinds of aggregate-level data that are available, the transition to this new pattern of electoral behavior may have occurred through a cohort process, with older voters continuing to vote at high rates, but with new voters exhibiting lower participation.[51]

Three main lines of explanation are typically offered to make sense of this significant change in voting patterns. These explanations are not mutually exclusive; to the contrary, there is a strong case to be made that the developments emphasized by the different explanations would reinforce each other.

The first type of explanation for the drop in voter turnout focuses on political parties, which had been the main institutions for mobilizing political activity.[52] It is probably not coincidental that the period in U.S. history with the highest electoral turnout was also a period of highly partisan governance. Candidates were strongly defined by their partisan affiliation. Election campaigns often focused as much on the party as on individual candidates: campaigns were party-centered, organized by party leaders for the entire ticket, rather than candidate-centered; specific candidates were not nominated until very near the election date; and open canvassing for votes by an individual was seen as overly ambitious.[53]

The partisanship of the era was reflected in its voting behavior. Most voters cast straight-party ballots. Indeed, the act of voting typically involved the casting of a party ticket — voting for an entire slate of candidates rather than the selection of individual candidates for each office. Voting was a public declaration rather than a private act, with the party ballots having a different color, size, or shape. With the parties in charge of printing the ballots, they arranged the mechanics of voting such that the easiest thing for an individual to do was to cast a straight ticket. As Kornbluh summarizes it:

[51] Kornbluh 2000, p. 108.
[52] Kornbluh 2000, p. 2; Kleppner 1982.
[53] Kornbluh 2000, p. 44-5.

> The parties dominated at every stage of electoral politics. Among other things, they registered voters; printed, distributed, and counted ballots; nominated candidates; financed and ran campaigns; and controlled the distribution of political information through an overwhelmingly partisan press. Political parties functioned as both the gatekeepers to electoral politics and the agents of collective action in the electoral arena: they brought electoral politics to the American public and led a partisan electorate to the ballot box in unprecedented numbers.[54]

Also important was that in many parts of the country, the battles between the two major parties were closely fought, and this competitive environment both stimulated voter interest and placed a premium on voter mobilization. The most competitive regions and states tended to be those with the highest turnout and the most stable patterns of partisan voting.[55]

Declining electoral competitiveness occurred within a fairly short time period, beginning in the mid-1890s. A political system emerged that was characterized by one-party dominance within most states and by relative equality for the two parties in national contests due to strong control over their respective regions. The transformation in the competitive environment was driven mostly by changes in two regions, and the pivotal event was the election of 1896. In the South, politics shifted to an even stronger form of one-party control, fueled in large measure by the exclusion of black voters. Compared to other regions, the South already had a less competitive environment, and this difference was exaggerated further. Meanwhile the industrial states in the Northeast and Midwest became solidly Republican during the early twentieth century and would continue to be so until the New Deal realignment. As Jewell and Olson summarize the transformation:

> The Republican party made a vigorous and largely successful effort to win the votes of the urban working class ... The Democratic party continued

[54] Kornbluh 2000, p. 41.
[55] Kornbluh 2000, p. 73-6.

> to keep many of the Catholic and recent immigrant voters, but it had lost its broad, urban, working-class base.[56]

Outside of the South, Northeast, and Midwest, the decline in electoral competitiveness was less pronounced, either because a region started at a somewhat lower level (for example, the Mountain states) or because the parties continued to be somewhat competitive even into the twentieth century (for example, the West). The drop-off in partisan competitiveness can be observed at the lower levels of government as well. Indeed, even in those states where state-level competition was a bit stronger, there was often one-party control at the county and city levels.[57] One way to summarize the change is to note that during the late nineteenth century more than three-fifths of the population (and four-fifths of northerners) lived in states with competitive two-party systems; in the early twentieth century, these figures stood at one-third and two-fifths.[58] The decline in competitiveness was perhaps more significant than such aggregate statistics suggest because of the demise of major third-party challenges (primarily from the Populists), and the growing margins of victory further lessened the competitive threat from any actual or potential third-party movements. As solid electoral victories became the norm for the dominant party in a given area, incumbency and unified party control of government became more common, further lessening the incentives — as perceived by both the parties and the voters — that had formerly worked, under more competitive circumstances, to maximize turnout.

The second type of explanation for the drop in voter turnout focuses on institutional changes to electoral rules and practices that made voting either difficult or impossible. Such changes, which began in the 1880s and gained momentum after 1900, dealt with both voting and party operations.

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[56] Jewell and Olson 1988, p. 22. Also see Kornbluh 2000, p. 63.
[57] Jewell and Olson 1988, p. 19 and 23; David 1972, p. 33.
[58] Kornbluh 2000, p. 144-5.

One set of reforms tightened eligibility and registration requirements. An example was residency and citizenship requirements, which were not new but were enforced more strictly. Poll taxes and literacy tests were also adopted or implemented more systematically. The effect of such eligibility reforms was to limit electoral participation, particularly for blacks, the poor, and the foreign-born, and particularly in the South and in coastal states with large immigrant populations.[59]

Arguably the most significant institutional change in the practice of electoral politics was the adoption of the Australian ballot, which had two key features: it was a secret ballot, not a public ballot; and it was an official ballot, not a party ballot. All nominated candidates, parties, or proposals appeared on one ballot, printed at public expense and distributed by government officials at polling places, rather than a ballot created by the parties and designed with an eye toward encouraging straight-ticket voting. While a historical viewpoint suggests the broader threat to partisanship posed by the Australian ballot, it must be remembered that the shift to this new voting mechanism occurred rapidly (38 of the 44 states adopted the reform within a five-year period, 1887-1892) and it occurred under the watch of the two major parties. The parties accepted, or at least did not aggressively oppose, the Australian ballot, because it provided both financial and political advantages to central party organizations. The most obvious was the shift of printing and distribution costs to the public treasury. In addition, a state-printed ballot provided a mechanism for the major parties to gain official sanction from the state, creating an additional barrier for third parties or dissident major-party factions, which now had to navigate a formal government process to appear in an election — as opposed to simply distributing their own ballots.[60]

In the South, the process of declining electoral participation was anything but subtle: intimidation, fraud, and restrictive election laws suppressed voter turnout in the 1890s and early twentieth century even more drastically than it had been previously. Outside

[59] Kornbluh 2000, p. 131-3.
[60] Kornbluh 2000, p. 43, 124.

the South, the new electoral rules and procedures were not determinative, but they nonetheless contributed to the other dynamics that were also working to reduce voting and to reduce partisanship. For example, the Australian ballot did not require independent voting behavior, and the new state-printed ballots did not make it difficult to vote a straight-party ticket. Nonetheless, the Australian ballot at least opened the door to more independent voting behavior, and perhaps created an opportunity for enterprising politicians to encourage this behavior if it suited their purposes; moreover, the ballot functioned as a de facto literacy test (most states did not allow personal assistance for illiterate voters or the printing of party emblems next to candidate names), further limiting participation. Overall, such legal changes created procedural barriers to participation and to partisanship at a time when parties were becoming less inclined to mobilize voters aggressively (due to declining electoral competition) and when voters were less inclined to be mobilized along the older, locality-based party allegiances (due to changing social conditions).[61]

The last point hints at the third line of explanation for the decline in voter turnout. It focuses on the connections between electoral participation and other social or cultural dynamics. The key insight behind this kind of explanation is that electoral politics during the nineteenth century went beyond the selection of public officials and served a range of social and cultural purposes — fraternity, entertainment, recreation, and so forth. More specifically, the institutions of political mobilization (parties) lined up along other social axes of differentiation (sectional, ethnic, religious) and competed on the basis of hotly contested cultural issues. Such issues proved effective in mobilizing a large share of the eligible population to vote. This political pattern arose out of the associational life of ethnically segregated residential patterns. As Kornbluh summarizes:

> Most Americans found that their familial, occupational, religious, ethnic, and neighborhood ties reinforced each other. Electoral politics served a crucial integrative function by linking these various identities together.

[61] Kornbluh 2000, p. 126, 136-8.

> Americans voted as their families, friends, coreligionists, and coworkers did and in opposition to people whom they viewed as different — religiously, ethnically, and socially. As a result, partisan preferences were reinforced and active participation encouraged. These social conditions were ideal for the maintenance of a highly politicized electorate

Local party organization played a key role in forming strong links with families and individual voters, tying politics to a wide range of local social activities and providing an array of benefits to community members (jobs, favorable government politics and decisions, along with various minor perks).[62]

Parties of the twentieth century did not draw as sharply on ethnic and religious loyalties as the nineteenth century parties had done, most likely because such appeals were proving less effective within the diversifying social and economic environment where the ties of local communities were becoming looser.[63]

The changing appeals by parties in response to such social developments has been tracked by historians studying the political culture or style of American election practices. During the nineteenth century "popular politics was entwined in a subjective, demonstrative kind of partisanship. Supported by the party press and spectacular election campaigns, that partisanship made political participation easier than before or since."[64] An ideological shift away from this style of politics can be traced as far back as the 1860s and 1870s among the kinds of liberal, upper-middle-class, and upper-class reformers who would also play a role in fiscal reform. Rather than viewing voting as a behavior rooted in the associational life of a locality, these opinion leaders promoted an ideal of the individual citizen exerting a role over governance by casting an informed ballot free of outside influence. This was a vision of an individualized and highly rational electorate. Related ideas gained prominence concerning the appropriate role of the press in the political process: in place of an avowedly partisan press, a new model of

[62] Kornbluh 2000, p. 30, 50-55, 61; quote from p. 33. Also see Oestreicher 1988.
[63] Kornbluh 2000, p. 116-17.
[64] McGerr 1986, p. 9.

independent journalism emerged. In the late nineteenth century and especially in the early twentieth century, parties and politicians modified their appeals along such lines, replacing the spectacular, associational campaigns based on mass mobilization with the advertised campaigns that aimed to educate and convince a population consisting of more independent voters who increasingly obtained political news from a press that tended to emphasize its journalistic independence rather than its partisan loyalty.[65]

Any one of these three lines of explanation for the decline in voter turnout and for the related decline in partisan voting behavior can be undermined in isolation. For example, although certain kinds of eligibility requirements can depress turnout (in some cases, by design), the chief electoral reform of the period, the Australian ballot, does not require that people vote less often or in a less partisan manner. Nor is there a necessary connection between independent voting or declining competitiveness and turnout declines. Similarly, the social changes that reduced the associational underpinnings for mass political mobilization were not determinative. European societies experienced similar socioeconomic modernization and did not uniformly experience an equivalent drop in political mobilization.[66]

The key point is that the developments emphasized by the three explanations worked together in a reinforcing manner. The political and electoral reforms made electoral participation somewhat less likely and opened up an opportunity for more independent voting. Declining competitiveness between the two major parties reduced the incentives for parties to maximize participation and decreased the entertainment appeal of electoral politics. Changing social conditions made mass mobilization more difficult because the parties could not tap the cultural connections and local associational networks as effectively as they had been able to in the past. And — in points that will be developed more fully in the ensuing discussion that ties the political and fiscal changes together — declining partisan influence and resources, along with the rise of a new kind

[65] McGerr 1986, p. 9, 214-18; and Kornbluh 2000, p. 113.
[66] Kornbluh 2000, p. 118.

of political entrepreneur who operated less as a creature of party than as an independent political force, led to a different strategic universe within which electoral politics was conducted. Kornbluh summarizes these connections:

> For an increasing number of politicians, repeated reelection generated personalized followings. More and more officeholders ran their own campaigns, independent of party control. Incumbents faced less intraparty opposition and thus usually went into general elections unscathed from primary battles. Since incumbents increasingly proved to be formidable candidates, the opposition party was less inclined to devote considerable resources to challenging them, and their own party had little need to marshal support on their behalf. The net result was a general toning down of electoral campaigns. Electoral politics was significantly less vibrant and tumultuous during the early twentieth century because the outcome of elections was rarely in doubt. As electoral competition waned, political parties had less incentive to mobilize voters, who, in turn, were less inclined to bother to vote. Just when the complexities of voter registration, literacy tests, and poll taxes made participation much more burdensome, the reduction in two-party competition lessened the satisfaction that people derived from casting a ballot. The realignment of partisan politics into a solidly Democratic South and a Republican North made it unnecessary, moreover, for the parties to continue to concentrate on securing active voter support. Occurring when party resources, organizations, and power were eroding, the decline in electoral competition was especially portentous because it meant that the parties had less need or inclination to devote their scarce resources to voter mobilization.[67]

The wider critique of partisan governance

Many of the criticisms of the general property tax system were closely tied to a wider critique of the nineteenth century system of partisan governance. The fiscal reformers and experts of the period were largely middle class or upper-middle class in their social position and outlook. In their eyes the fiscal-political problem was, as Yearley described it, "a combination of ochlocracy and plutocracy — a rule of mob and money, the

[67] Kornbluh 2000, p. 147-48; also see p. 151 and Shefter 1994.

ultimate horror of the middle classes."[68] This combination was realized through the mechanism of party governance.

These related fiscal and political critiques can be better understood by considering how parties financed their operations during the nineteenth century. Although we lack systematic data on this matter, the chief revenue generator for political parties appears to have depended on the salaries of public officials. This is a key reason why patronage — the awarding of government jobs to party members — was so important to the operations of nineteenth-century parties. Consistent with the broader fiscal language of the era, this form of revenue collection was often called a "political assessment" or even "the tax."[69]

Yearley uses the term "money machine" to describe the entire system whereby the general property tax financed government, the officials of which then paid assessments on their salaries, which then funded campaigns for elections to the top government posts. While government taxed property, the parties taxed people: officeholders, candidates, and party workers. In effect, the political system was based on an extralegal income tax, to which both elected and appointed officials were subject. Based on anecdotal evidence and writings of contemporaries, Yearley guesses that the effective rate of this tax on political incomes ranged from 2 to 6 percent in New York during the late nineteenth century, with a good deal of variation in the rate depending on the type of official post. Another estimate for the period is that party patronage from assessments on government salaries represented a 5 to 10 percent share of the state treasury. The exact rate is difficult to know with certainty, but the main point is that such assessments were hardly minor: they generated a significant share of party revenue and they claimed a non-trivial share of government salaries. The highest assessments were on political candidates, and they were "usually tied directly to the calculable costs of waging campaigns." Candidates were required to pay an assessment

[68] Yearley 1970, p. 17.
[69] Yearley 1970, p. 99, 107-110.

to the party, which in turn controlled the disbursement of campaign spending. What the parties paid for was partisan spectacle and voter mobilization.[70] This extralegal form of taxation was executed on six levels: national, state, county, mayoralty, ward, and district. Office holders would pay customary rates or charges to the levels considered appropriate for their post. In Yearley's evaluation, it was a fairly efficient system, one probably no more corrupt than the larger fiscal system. Ironically, their critics indicted parties for governing inefficiently while exaggerating their skill in collecting political assessments.[71]

Another significant source of resources during the late nineteenth century, particularly for state-level party organizations, was money or other forms of support from private corporations. The degree of such corporate support appears to have been higher in 1900, for example, than it had been in the 1870s. Such developments had occurred partly in response to political challenges to party control over the political process. Such challenges came, for example, from the labor movement over the loyalty of working class voters, from politicians relying on strident ethnic appeals, and from independent political operators within the party who pursued gains for their personal organizations too aggressively, thus neglecting party building activities as well as exposing the party to criticism on the grounds of corruption. One type of response to such problems was to strengthen the state and local party organizations "by entering into alliances with prominent members of the local business community. By forging such alliances, party leaders gained access to a legitimate source of campaign contributions, and, equally important, they acquired a measure of respectability that enabled the candidates they backed to win middle class votes."[72]

[70] Yearley 1970, p. 99, 107-110; quote from p. 110. Also see Laichas 1999, p. 138, and Kornbluh 2000, p. 44.
[71] Yearley 1970, p. 109.
[72] Shefter 1994, p. 174-5.

The reliance on officeholder assessments and the reliance on contributions from corporate sources may have been inversely related. At the federal level, assessment of federal employees declined as the financial connections between parties and business groups increased. This change had less to do with regulation (the anti-assessment provisions of the Pendleton Act were weak and had limited impact) than with changes in party funding strategies. Such changes can be observed in the Republican campaign of 1888. As Skowronek writes, "The patronage-starved Republicans formalized their relationship with industry and big business. ... As these resources were developed the importance of assessments on federal employees declined markedly. Maneuvering around the antiassessment clause became more trouble than it was worth."[73]

Of course, a money-machine system based on officeholder assessments was found in its most fully elaborated form in those states that had well developed party organizations — and not all states did. Strength of party organization turns out to be an important variable in many types of political and policy analysis. One key contrast among states during the twentieth century has been "between having strong party organization (the traditional patronage variety) and, at least at the nominating level, having little or no organization at all in environments where candidates are supplied for the most part by uncontrolled primaries."[74]

The states with well developed parties were overwhelmingly concentrated in the Northeast and Midwest. Although few in number, states with strong party organizations were important quantitatively. Mayhew, for example, assigns traditional party organization (TPO) scores to all states. Technically these scores are based on the political environment as of 1960; however, one of the main themes emerging from Mayhew's detailed examination of U.S. political parties is the historical persistence of state-level political patterns like the strength of party organization. To the extent that Mayhew's TPO scores have a high correlation with the strength of party organizations

[73] Skowronek 1982, p. 75.
[74] Mayhew 1986, p. 17.

during earlier periods, one can use his scoring to measure the percentage of the U.S. population living in states with high TPO scores. In 1890, this figure was 48 percent, reflecting the demographic weight of the Northeast and Midwest. As of 1940 the same measure stood at 45 percent.

In the West, by contrast, party machinery was not nearly so developed. The core of the party system was built on the local organizations, upon which the higher-level organizations (state and national) rested. Newly and sparsely settled regions lacked such fully developed local party organizations, and the dominant institutions in western states were railroads and mining corporations, so these organizations tended to exert a larger influence and probably played a larger role in party finance. "The railroad could provide politicians with money to finance campaigns and with a network of agents scattered throughout the state — services that politicians in the Northeast constructed political machines to obtain."[75] Political actors in the West did not pursue a strategy of competitive party building and electoral mobilization to the same degree as in the Northeast quadrant of the United States. Political lines in the West tended to be geographic, dividing communities according to their relationship with the railroads. This type of politics usually took the form of party factionalism and was not as conducive to mobilization strategies; instead, competing groups fought for influence within the state legislature.[76]

This regional pattern is indicative of a more general trend observed by Mayhew in his study of party organizations — namely, the comparative weakness of "pressure politics" in states with high TPO scores. Pressure politics existed where non-party organizations (corporations, unions, and other interest groups) were able "bring to bear resources that dwarfed those of individual legislators in state capitals and also legislative candidates in primary and general elections; 'pressure' was made possible buy the

[75] Shefter 1994, p. 177; also see Mayhew 1986, p. 221-3.
[76] Shefter 1994, p. 178-9.

asymmetry in resources."[77] It makes sense that where party organizations were strong such asymmetry would not prevail, and politicians would be less susceptible to the influence of outside groups. This is not to say that corporations fared badly in states with strong party organizations; to the contrary, they usually had a solid relationship based on reciprocity with the parties. However, this form of business-government relationship is quite different than that seen in the truly corporate states, where the level of business influence on public affairs was more extensive.

The middle-class critique of partisan governance centered on the ways in which the party system translated the interests of other groups into government spending. One set of concerns focused on the matter of so-called "profligate democracy." Many urban residents did not directly pay property taxes, but they did draw public services. In cities with rising tax bills, property owners often accused politicians of effectively buying votes through ill-advised spending programs. As Yearley writes, "hostility toward urban democracy inspired a voluminous literature."[78] The basic formulation underlying these critiques was that fiscal extravagance resulted from having a sizable part of the voting population that did not directly pay the main tax that supported state and local governments. Under this formulation, strong party organizations were a key mechanism by which the interests of the venal masses were translated into public policy.

Another set of middle-class concerns dealt with corporate or business influence on the political system. The concerns came in two different flavors, depending on the time period, the location, and the reformer. On one hand was a sense that government was being run by political bosses and was insufficiently attentive to the needs and costs of businesses, and thus that government was standing in the way of the kinds of city development that various middle-class groups favored. Businesses were less secure in their relationship with the state in this period than they would be, for example, in the

[77] Mayhew 1986, p. 240. Mayhew uses Belle Zeller's work classifying the states on pressure politics and he finds a strong inverse relationship between Zeller's measure and his own TPO scores; see p. 239.
[78] Yearley 1970, p. 20. For similar themes see Ballard C. Campbell 1995, p. 60.

1920s.[79] On the other hand was a concern about politico-business corruption — namely, an "alliance between party politicians and businessmen that was widely believed to form a secret, invisible government."[80] There was a growing belief among many groups that corrupt alliances between business and parties were wasting resources, failing to respond to pressing new social problems, and threatening the ideals of American democracy.[81]

Still another concern focused more directly on the general property tax system itself. New forms of wealth (intangible or corporate) were not being subjected to the same level of taxation as real property, both because of the inherent difficulty of taxing intangibles and because of political leaders wanting to subsidize new wealth creation.[82]

In combination, the concerns added up to worries that government was spending money on the wrong things (profligate democracy, corporate giveaways, or party operations) and was relying excessively on the real estate component of the general property tax to fund these operations. Parties were the organizational means by which the new democracy exerted political influence, and the means by which extreme wealth exerted undo influence over the system. Middle-class critics "lashed out at party not only because it converted the money machines to welfarism and other uncongenial popular uses, but also because political organizations were considered subservient to special interests and to 'robber barons.'"[83]

At this point, the discussion naturally splits into two branches, one focusing on the South and the other on Republican Party developments outside the South.

[79] Yearley 1970, p. 130.
[80] Ballard C. Campbell 1995, p. 60.
[81] McCormick 1981; McCormick 1986.
[82] Yearley 1970, p. 16.
[83] Yearley 1970, p. 34.

• The case of the South provides an exemplary illustration of several things: a specific example where the idea of "profligate democracy" played out in a strong fashion; the importance of fiscal affairs in the study of politics (a general goal for this study); and a case where major fiscal changes and political strategies interacted in a way leading to an extreme form of the general political trend toward political demobilization.

• The discussion of Republican Party developments outside the South will provide context to better understand the political reform movement against party governance during the late nineteenth and early twentieth centuries.

Political developments in the South

One of the key questions about Southern politics during the late nineteenth century is why the Republican Party lost or failed to attract the support of white small farmers. A common all-purpose explanation has been racism; however, several studies of Populism have argue that many white yeomen were prepared to look past their racial attitudes and to vote with blacks in a political and economic alliance that seemed to promise tangible benefits. In addition, we are told in the standard Reconstruction literature that the Republicans were expanding public services, notably public schools, in ways that should have appealed to white small farmers. In fact, Republicans did make early progress in garnering support of small farmers, suggesting some willingness to overlook racial attitudes. Why did this support vanish?

An important part of the answer can be seen by considering fiscal matters. During the antebellum period, an important share of revenue for the Southern states came from slave taxes (30 to 40 percent usually) and from other taxes that primarily hit the well-off. The white yeomanry paid only poll taxes and fairly low property taxes. Thornton estimates that roughly two-thirds of state revenues came from the wealthiest third of

the white population. Granted, this wealthiest third owned more than two-thirds of all wealth; nonetheless, this degree of progressivity probably compares favorably with most state tax systems in U.S. history. The critical point will be to compare the antebellum tax burdens on lower and middling whites to what they would become during Reconstruction.[84]

With Reconstruction came several fundamental changes: (1) elimination of the slave tax; (2) substantial increases in taxation on land as states, no longer able to tap slave wealth, increased their reliance on the real estate portion of the general property tax; (3) significant growth in state expenditure as Reconstruction governments assumed more responsibilities for social welfare and economic promotion; and (4) both inflation and an instant doubling of the size of the citizenry, which worked to reduce the real per capita benefits for white yeomen from the expanded state functions. It is also important to remember that even a low tax rate was a large burden in the Southern economy. Taxes on land represented an important share of the cash income of farmers who were only partly connected to the market economy. The high number of foreclosures attests to the weight of the tax burden on many small farmers.[85]

The key to understanding the political outcome — the Republican Party's inability to retain political support from the white yeomanry — may not be racism by itself or fiscal matters by themselves, but how the two interacted. From the perspective of white small farmers, the party was offering higher taxes and the same or perhaps even a lower effective level of services, with many of the benefits of state expenditures going to either (a) a corrupt alliance of politicians and economic elites, or (b) blacks who, by virtue of being landless, were assumed not to bear the burden of property taxes (from an economic perspective, even renters or sharecroppers bear property tax burdens, but in fiscal politics formal tax incidence typically matters less than direct tax burdens). One can readily grasp the ease with which corruption and racism could be deployed in the

[84] Thornton 1982; Hyman 1989.
[85] Thornton 1982.

ideological language that Redeemers used when appealing to the fiscal interests of white small farmers. As Hyman writes, "dissatisfaction with the management of regional fiscal affairs during Reconstruction was an important factor in the alienation of ordinary white southerners from Republican rule."[86]

The ultimate outcome was somewhat ironic: even though Reconstruction was overturned by gaining support from ordinary white Southerners who were upset about fiscal affairs under Republican governance, the Redeemers, once in power, did very little to address the core grievances. Dissatisfaction over fiscal affairs continued even after the Redeemer Democrats gained control. This discontent fueled the growth of various anti-Redeemer political movements in the late 1870s and early 1880s. Redeemer governments did further the trend actually begun during Reconstruction of reducing state costs: scaling down debts; prohibiting public aid to private operations; giving some relief to real estate by adjusting land assessments and increasing privilege and license taxes; and reducing the scale of government apparatus.[87] Yet dissatisfaction over fiscal matters — especially in hill country populated by small farmers — remained strong. This was more than perennial opposition to taxes, traditional suspicion of government, and hard times during the 1870s. In fact, the Redeemer governments' fiscal policies were particularly unsympathetic to the needs of small producers. In general, Redeemer tax policies benefited wealthier areas in the South more than poorer areas.[88] Various property tax exemptions enjoyed by small producers (farmers and mechanics) were reduced significantly following Redemption. These changes were implemented to force landless blacks to bear some property tax burden, but the new policy hit poorer whites as well.[89] Poll taxes and fertilizer taxes were raised — again, to impose taxes on landless blacks, but these also pinched white small producers. Similarly, the burden of road taxes — like that of property taxes generally — shifted down the economic scale. Road taxes

[86] Hyman 1989, p. 50.
[87] Hyman 1989, p. 50-53.
[88] Also see Wallenstein 1984.
[89] Hyman 1989, p. 55-6.

had been, and continued to be, based on the number of adult males, slave or free. After emancipation, large property owners remained the largest users of the commercial road network, yet their responsibility for maintenance dropped with the end of slavery. Many hill country residents wanted the road tax to shift from a per-man basis to an ad valorem basis, but this was not changed during the 1870s and 1880s. Redeemer governments also granted various special concessions or exemptions in the name of industrial promotion, which generated resentment, especially as the issue was handled regarding railroads.[90]

Political developments outside the South

Meanwhile, outside the South, the Republican party had used patronage aggressively during the 1860s to build up the party. It was a strategy with lasting consequences, specifically in giving advantage to the party's professional politicians and in reducing the influence of other kinds of social leaders — journalists, professionals, clergy, academics, and other opinion leaders. Such Republicans — they were variously called Liberals, Independents, Mugwumps, or, later in the story and with some differences, Progressives — came to see the highly partisan system of governance as a fundamental problem.[91]

Such Republicans were the leading advocates of civil service reform. By temperament, these reformers were non-partisan and anti-political, and they valued administrative and financial efficiency. In promoting civil service reform their aim was to strike at the heart of party governance and, in so doing, to purify politics. Their viewpoint was too constrained in that it ignored the core question of how to finance political democracy in a complex society. Nonetheless, civil service reformers thought that if posts in the bureaucracy were distributed according to professional merit rather than patronage,

[90] Hyman 1989, p. 72-3 and 57.
[91] Shefter 1994, p. 72-3. Also see Yearley 1970 and Skowronek 1982.

politicians would no longer be able to compete "through what amounted to a system of organized bribery; they would instead have to pay heed to public opinion."[92] Another result would be that the influence of party leaders would wane, to be replaced by the community's more natural opinion leaders — the professional middle-class. At the heart of the reform movement was a growing and increasingly self-conscious professional sector (lawyers, journalists, academics, clergy).[93] They believed that civil service reform would reinvigorate the public sector, increase government expertise, and create a government more able to withstand pressures from parties and corporations. They founded the National Civil Service Reform League, a notable interest group of the period in that effectively worked outside party channels and was prepared to support candidates of either party who endorsed the group's positions.[94]

During the nineteenth century, the movement for civil service reform probably made more ideological than practical progress. The idea gained support but the effect of the movement's legislative achievements were limited. The Pendleton Act did not significantly alter the party system. The federal government grew more rapidly than the number of employees in the classified civil service, which itself consisted of many technical positions that were not that useful for patronage anyway. On the state level, civil service reform did not go very far during the nineteenth century. Only New York and Massachusetts enacted civil service laws, and these systems were quickly undermined.

> Consequently, the parties had no less federal or state patronage available to them in 1900 than they had had in 1883. Indeed, the very reason the parties were prepared to live with civil service reform was that it imposed no present costs on them, while it enabled the government to respond to technological change and defused the opposition of some disgruntled elites.[95]

[92] Shefter 1994, p. 73.
[93] Skowronek 1982.
[94] Shefter 1994, p. 73-4; Yearley 1970, p. 168.
[95] Shefter 1994, p. 75.

The realignment of 1896 had a major impact on the cause of political reform. In the highly competitive environment of the late nineteenth century, the Mugwumps had used balance-of-power politics to advance their policy goals. The arrival of a less competitive electoral environment was a windfall to whichever party was dominant in a state or region, and since party politicians often advanced their careers by drawing resources of major corporations or by aiding major economic interests in a state or city, the less competitive environment was also a windfall for those sectors in the business community that were allied with the dominant party in a region or locality.[96]

The Progressive movement that emerged in this new environment was able to achieve much more political and policy success than the Mugwumps had done, because it combined the following sets of interests: (a) business interests and other social groups that felt they were not being well served by the existing dominant party; (b) the kinds of middle-class elites that had found themselves excluded from access to party power (journalists, professionals, academics, clergy, and so forth); (c) entrepreneurial politicians whose careers had been frustrated by the dominant party leadership; and (d) a wider middle class.

The base of popular support for reform came from a middle-class that was increasingly convinced by the critique of partisan government and was coming to believe that government was serving other social groups — either dominant business interests or the working-class supporters of party machines. The middle class was also attracted to the cause of civil service reform for practical reasons. It appealed to widely shared ideas about fiscal restraint, which was one reason the parties could not kill the idea outright. Moreover, it was a system that gave advantages to the middle classes for government jobs. This component of the reform movement was very important in sustaining its popular backing. Finally, segments of the middle class were looking with increasing favor

[96] Shefter 1994, p. 74-76.

on appeals for government to do more. From one angle, this response seems to contradict civil service reform's appeal as a way to achieve fiscal restraint; however, the contradiction was intended. The vision was to make government more efficient, allowing it to do more with the same resources — more efficient generally and more efficient in the sense of eliminating the party's cut and achieving more output from government employees. Specifically, this meant the following: hiring and promotion based on merit rather than the demands of party strategy; stricter accounting; dropping wasteful or inefficient workers from public payrolls; placing limits on departmental hiring; and increasing the workload on public employees. As Yearley writes, "if the urbanized middle classes were going to sanction taxation and spending, they intended to strike even harder at what they regarded as extravagance, waste, inefficiency, graft, boodle, welfare, and other such accompaniments of party. They intended, just as the Mugwumps had, to take the politics out of governing."[97]

It is important to remember that the various political reforms — civil service, the Australian ballot, and so forth — were achieved under a partisan regime. In some cases, the parties welcomed or at least did not aggressively oppose the reforms, either because they did not see the changes as threatening or because the ostensibly anti-party reforms actually offered benefits to the parties, party leaders, or incumbents. Such points have already been made about civil service reform and the Australian ballot, for example. Furthermore, the reforms did not necessarily undermine political organization, and parties managed to survive quite well as they adapted to the new rules. In some sense, parties became less central but also more official: "Secured in law and guaranteed a near monopoly over nominations, they equipped themselves well to survive in an antiparty age."[98]

Nonetheless, party organizations were showing some signs of declining influence. Party organizations arguably had less control over an increasingly administrative style of

[97] Yearley 1970, p. 253, as well as p. 256, 146-7; Shefter 1994, p. 77, 81; McCormick 1981.
[98] McCormick 1986, p. 180; Kornbluh 2000.

governance and politics. Signs of factionalism, bi-partisanship, non-partisanship, and declining party loyalties were evident. Party finance still relied on its traditional extralegal sources — candidate and officeholder assessments, as well as the "taxation" of individuals or businesses interested in government decisions — but these assessments were not imposed as formally as they had been in the past, due largely to legislative and public proscriptions against them: for example, prohibitions regarding officeholder assessments, prohibitions against the offering of material incentives for voters on election day, and regulations regarding corporate donations. All of this led parties to adopt a different political strategy, one less dependent on expensive, labor-intensive election practices geared toward high levels of voter mobilization: "without concrete incentives to offer their adherents, the parties were generally unable to maintain the extensive organizations they had built up in the late nineteenth century and were forced to abandon most labor-intensive electioneering practices."[99]

Parties were not the only political operators adopting new tactics in a changing strategic environment. As mentioned above, entrepreneurial politicians with varying degrees of independence from traditional party organizations would become an increasingly important feature of twentieth-century politics. Much more than the reform movement of the late nineteenth, the Progressive movement would be defined by its association with such political entrepreneurs: Roosevelt, Wilson, La Follete, Hiram Johnson, and so forth. Such politicians were able to tap new communications avenues, allowing them to partially bypass the party organizations as the sole device for reaching the voting populace. The partisan press had been crucial to electoral politics in the nineteenth century, with newspapers playing a key role in the dispersal of political information and with most newspapers being intensely partisan. Toward the end of the century a "new journalism" emerged, proclaiming its independence and professionalism. Partisanship did not disappear entirely and papers still had editorial positions, but new professional standards and new commercial strategies had emerged in journalism. Specifically,

[99] Kornbluh 2000, p. 130 and 128-130 generally; Yearley 1970, p. 264-5.

business strategy for newspapers focused mainly on circulation and advertising revenue and depended much less on party largesse.[100] Entrepreneurial politicians were able to tap this new communication resource. Effectively, a set of economic and technological changes were allowing candidates, interest groups, and citizens to pursue political goals with less dependence on party organizations, because such organizations no longer held monopoly power over the kinds of resources needed to mobilize popular support.[101] And, as will be discussed in greater detail below, this new breed of entrepreneurial politician also competed outside the old party environment by campaigning on promises for fiscal expansion — something rarely heard in the intensely partisan political environment of the late nineteenth century.

Changes to the fiscal system

In the late nineteenth and early twentieth centuries fiscal and related political reforms were implemented to address the kinds of concerns described above. Before discussing such reforms in more detail, it is important to emphasize that the timing of these policy changes varied from state to state, and that not all reforms were implemented everywhere or in exactly the same way. In general terms, one can group the reforms into two broad categories Under the first category one finds a set of changes intended to improve the administration of the existing fiscal system: administrative professionalization; more effective assessment practices; centralization and state oversight; executive-centered fiscal decision-making; and a more formalized and centralized budgeting process. In the second category are fiscal reforms that represented more significant departures from the general property tax system — departures that combined, to one degree or another, the following elements.

[100] Kornbluh 2000, p. 46.
[101] McCormick 1986, p. 188-9.

• *Classification*: movement away from the general property tax ideal of treating all wealth in the same class and instead handling certain kinds of property wealth under specialized taxing rules.

• *Separation of sources*: movement away from a system in which both state and local governments relied on the same revenue instrument.

• *Replacements for the general property tax*: as part of that separation or sources, the replacement of all or part of the state's general property tax with new revenue instruments, leaving the general property tax to local government. Initially, the replacements took the form of various special property taxes, and these sometimes evolved into revenue instruments similar to corporate income taxes. Later, as will be discussed in a subsequent chapter, states would move away from the property tax rubric entirely and into new areas, such as auto-related taxation, income taxation, and general sales taxation.

Although these three elements of fiscal reform can be separated analytically for discussion purposes, in practical application they tended to be bound together. It was possible, for example, to implement property tax classification somewhat independently of the other two types of fiscal reform. Some states did this, moving away from the general property tax ideal and toward a regime where certain kinds of property were taxed using different methods or rates. The other two reforms, however, tended to travel together by necessity. In order for state and local government to rely on separate sources, the state needed a replacement, and this tended to come in the form of so-called special property taxes. Furthermore, both of these reforms required the basic ideological shift implied by classification — that is, the movement away from a general property tax to a regime involving "special" property taxes.

Administrative reform and centralization

Although many different kinds of reforms were considered and sometimes implemented to improve the functioning of the general property tax system, the most important aspect of such reforms was arguably centralization. Two kinds of centralization were underway. The first dealt with centralization within the state-local system — that is, with state government officials or agencies playing a larger role either in the administration of property taxation or in the oversight of local efforts. The second type of centralization occurred within the budgeting and fiscal processes of individual governments.

The U.S. system of property tax administration had been a highly localized one. Early property taxes were administered at the level of the township in New England and the county in the South, for example. The local assessor was typically the most important official within this system of administration. From a practical point of view, having a local person assess property for taxation made some sense, but the political factors supporting localized assessment might have been even more compelling. For example, for political reasons linked to battles over public school financing (resistance from conservatives to mandatory schooling and the consequent taxes) state politicians were content to have both school funding and property tax assessment remain at the local level. Furthermore, property tax assessment often became an element of the local patronage system.[102]

The general property tax's ideals of fairness and equity existed in some tension with the political commitment to localism. Local administration made it difficult to impose a systematic, rationalized approach to the setting of tax burdens across geography, sectors, and individuals. Local administration also tended to mean unprofessional administration, especially to the extent that assessment posts were filled with an eye

[102] Harley Leist Lutz 1918, p. 8-9; Fisher 1996a, p. 5.

toward party building rather than expertise. Some argued that the inferior legal position of localities relative to the state tended to inhibit the kind of administrative experimentation that might lead to better methods. It is important to point out that local assessment did not mean that the general property tax was stuck perpetually with an ineffective enforcement mechanism. Local assessment powers did grow over time. Early on, assessors had fairly limited powers and they had to rely largely on self-assessment by taxpayers. Over time — and the date of such reforms varied, depending on the level of development within the state — assessors were granted greater inquisitorial powers to discover and assess wealth. Another attempt at reform within the localized system was the creation of local boards of review. Such boards appeared as early as the colonial period. More effective county-level boards appeared in the early nineteenth century. Summarizing the inherent tension between equity and local administration, Fisher suggests that "if given the choice, most Jacksonians probably would have chosen imperfect local administration of the property tax over a centralized, elite administration that resulted in greater equality of tax burden."[103]

Administrative centralization typically came in three steps: boards of review and equalization; state-level control of corporate assessments; and then state tax commissions. Again, there was variation across states, not only in details and timing but also in whether states went through this exact sequence at all. For example, laggard states in the field of fiscal centralization might have adopted all three elements at one time. Other states might have skipped one step or another.

The earliest boards of review and equalization were local, and their main purpose was to check or correct for evasion and undervaluation within a jurisdiction. Later, such bodies were created at the state level with an eye toward a fairer distribution of the state tax burden among the various local jurisdictions. As of 1918, state-level equalization existed in 39 states. The first instances of state-level equalization appeared

[103] Fisher 1996b, p. 9 and 6; Harley Leist Lutz 1918, p. 5-10; Lindholm 1970, p. 34-35.

in the Midwest during the mid-nineteenth century. Like some of the other antebellum fiscal reforms, centralization was partly driven by a growing appetite for state property taxes as rising expenditure demands and a shift away from non-tax revenue sources pushed states toward a greater reliance on the general property tax. These fiscal developments introduced a feedback dynamic: the return to state-level taxation increased the attraction of competitive undervaluation on the part of local jurisdictions, which in turn evoked a state response toward greater centralization in order to ensure adequate revenues. The logrolling that undermined the effectiveness of county-level boards of equalization did the same for the state-level boards. The powers of such boards were typically restricted to equalization: they could not alter assessments, but they could adjust the aggregate burden among jurisdictions. Lutz provides an illustrative examination of the political fortunes of the Michigan tax commission, which experienced early popularity, under the notion of equalizing tax burdens among individuals and jurisdictions, followed by intense controversy, as taxpayers reacted to the commission's exercising of its powers and as local fiscal officials reacted to their loss of autonomy.[104]

The second step in the typical state's movement toward administrative centralization of property taxation was the state-level control of corporate assessments, a topic that will be explored in greater depth in the discussion of the adoption of special property taxes.

Finally, the third step was the creation of state tax commissions. Such bodies usually assumed the tasks of equalization and corporate assessment. What distinguishes them, however, is that to varying degrees they assumed supervisory powers over local officials and the general administration of the entire tax system, including the actual process of assessment. None of the boards of equalization created before 1891 had such powers.[105]

[104] Harley Leist Lutz 1918, p. 5-6, 22-26, 31; Stockwell 1939, p. 2; Fisher 1996b, p. 139; Plehn 1926, p. 170.
[105] Harley Leist Lutz 1918, p. 39-40.

Although the gains were probably incremental and modest, centralized administration of general property taxation did help in the sense of increasing and equalizing valuations (both among and within jurisdictions) and in improving the assessment methods used for more difficult kinds of property (corporate, mining, transportation, and so forth).[106]

The other type of centralization — namely, of budgeting and fiscal processes within individual governments — gained ground starting in the early twentieth century. Previously, state budgeting had been a decentralized process, with individual departments vying for revenue within the legislative arena, and with the legislature passing many revenue bills, and sometimes with governors using veto or line-item veto powers to keep the state's spending and revenue in balance. The first type of reform along the lines of centralization and rationalization was to create various types of budget boards or commissions — consisting of representatives from the legislature and various departments — to take the lead in preparing a budget, which would serve as the starting point for legislative deliberations. California and Wisconsin were two leaders on this front. The next phase in the development of centralization was in the budget movement. Although there were precursors, this movement made the most progress in the early 1920s as many states shifted from budget boards to an executive budget, in which the governor's office would prepare the budget to be submitted to the legislature. The impact of such reforms often hinged upon the degree of staff professionalization and expertise. Without such a staff, the governor's office was ill-prepared to do much more than concur with the information and funding requests submitted by the reporting departments. Such changes reinforced — and were part of — the larger trend toward a more executive-centered and administrative-centered form of governance that was emerging at all levels within the United States during the early twentieth century.[107]

[106] Harley Leist Lutz 1918, p. 4-5 and 632-8.
[107] Teaford 2002, p. 59-67.

Classification

Criticism of the general property tax was based on the idea of classification and a rejection of the ideal of treating all property wealth as a single thing to be subjected to a uniform system of assessment and taxation. Although reformers might not have looked favorably on such a comparison, their campaign was, in some respects, a return to the colonial model of property taxation, in which the fiscal system showed no qualms about treating different types of property differently.

One of the core documents in the early critique of the general property tax, the 1872 Wells Report, was quite explicit it making the case for classification and rejecting the general property tax ideal.

> One of the greatest obstacles which stands in the way of reform in the local taxation of the United States ... has been the general acceptance of the theory *that in order to tax equitably and uniformly it is necessary to subject all property to assessment, and more especially that the exemption of any form of what is termed "money capital" is to grant a favor to those who possess such property and are best able to bear taxation at the expense of the remaining and poorer part of the community*. The commissioners, however, utterly discard this theory ... and hold, in opposition, *that equality of taxation consists in a uniform assessment of the same articles or class of property that is subject to taxation*; and they further maintain that *all taxes equate and diffuse themselves, and that if levied with certainty and uniformity upon tangible property and fixed signs of property, they will, by a diffusion and repercussion, reach and burden all visible, and also all invisible and intangible property, with unerring certainty and equality*.[108]

The Wells Report was typical in arguing for more than just classification. The passage quoted above does not merely advocate moving away from the general property tax's strictness about one rate applied to all things. It also argues that property taxation ought to focus on "tangible property and fixed signs of property" and that, in so doing,

[108] New York Legislature 1872, p. 47; emphasis in original.

the system will — through economic processes not fully stated — diffuse the tax burden fairly to all forms of wealth, both tangible and intangible. This rhetorical line is familiar in political battles over competing tax instruments — namely, the suggestion that one need not worry too much about direct tax incidence, because burdens will be distributed widely through cost shifting mechanisms. Such arguments are used to reassure those who will pay the taxes directly that they will be able to shift the burden to others — their customers, their renters, and so forth. From an economic perspective, this sort of argument tells only part of the story: costs are passed along throughout an economy; however, this does not mean that the precise nature of a tax, including who pays it directly, is irrelevant to tax incidence. From a political perspective, who the direct taxpayers are matters greatly, regardless of ultimate economic incidence. Citizens on the butt end of such taxes rarely believe the reassurances coming from those who insist that cost-shifting will flow smoothly.

From the outset, then, classification carried with it more than a general principle — namely, that the fiscal system ought to have the flexibility to treat fundamentally different kinds of property wealth in different ways. It also tended to include the more specific idea that the fiscal system should focus more of its attention on tangible forms of property and that the rates on intangible property should be lower. One of the important early scholars of tax classification — someone who was also a proponent — openly admitted that the chief goal of the classification movement was the "imposition of low-rate taxes upon intangibles."[109] The cynical view is that this program of fiscal reform reflected the elite and affluent middle-class interests of the economists, tax officials, government groups, newspaper editorial boards, and industries that were the key supporters of classification; meanwhile, farmers and rural interests were naturally skeptical of classification and tended to be among its opponents.[110] Recall that while discussing the opportunistic departures from the general property tax during the antebellum period, this study suggested that they were preludes for the late nineteenth

[109] Leland 1928, p. 114.
[110] On the supporters and opponents of classification see Leland 1928, p. 112-3; Benson 1965, p. 63.

and early twentieth centuries, a time when the rising economic importance of intangible or non-real forms of wealth would make the general property tax ideals all the more relevant. At precisely this moment, when the general property tax started to bite, we find various middle-class, reformist, expert, urban, industrial, and propertied groups arguing that the general property tax ideals were not so ideal after all and that the tax was dysfunctional.

However, a cynical view of the classification movement — while enlightening in some respects — does not tell the whole story. The general property tax may not have been as dysfunctional in a modernizing economy as its critics charged, but the problems of evasion and under-assessment of intangible wealth were real. Proposals to offer lower rates to intangible wealth were driven partly by practical considerations. From the point of view of both fairness and the government purse, even a low rate was better than a high rate that drove most intangible wealth into hiding. Along these lines, classification was an effort to widen the tax base, to bring more wealth to the tax rolls by using lower (more realistic) rates. Another practical consideration was administrative simplification. Some types of tax classification were motivated by administrative ease — for example, using an industry-specific or property-specific method as a rough proxy for the market value of property that was quite difficult to value on purely technical grounds.[111]

Although most states experimented with tax classification to some degree during the late nineteenth and early twentieth centuries, the success of the reform in improving fiscal outcomes appears to have been modest. Leland indicates some notable gains in assessment did occur; nonetheless, the general impression is that the volume of property coming on the rolls as a result of classification was not dramatic. Even in states where classification was pursued most fully, the bulk of personal and intangible property remained off the tax rolls. Some states showed increases in the revenue from non-real property after classification was put into effect, but these improvements were

[111] Benson 1965, p. 67.

modest, and in some states, the net revenue impact might have been negative, at least for some years.[112]

When faced with the failure of classification to yield significant gains in the efficacy of the taxation of intangibles, classification advocates such as Leland usually attributed the meager results to faulty administration. But this response raised an even more troubling question for the fiscal reformers. Why not simply administer the general property with greater vigor?

Separation of sources

Although not universally embraced by fiscal experts, reformers, and legislative bodies, separation of revenue sources was one of the fundamental reform ideas of the late nineteenth and early twentieth centuries, and it was intimately bound up with the deeper goal of abandoning the general property tax. In the abstract, separation of sources simply meant a departure from the system in which state and local governments relied predominantly on one tax base — general property wealth. Instead, different government levels would have independent tax bases, whatever they might be. In actual implementation during the late nineteenth and early twentieth centuries, separation of sources meant something more specific: local governments would continue to rely on general property wealth; and state governments would rely on special kinds of property — often corporate property, and especially corporate property of public service corporations, such as railroads, street railways, power companies, insurance firms, banks, express corporations, telephone companies, and telegraph companies. Furthermore, these special kinds of property were then exempted, in whole or in part, from taxation under the local general property tax. Just as classification was a movement toward an earlier pattern of property taxation, so too did separation of

[112] Leland 1928; Benson 1965, p. 66-8.

sources represent a return to taxation before the antebellum period, during which state and local governments often tapped different tax bases.[113]

The reasons given to support separation of revenue sources were varied, sometimes interrelated, and at times contradictory in their basic impulses. One set of reasons dealt with administrative efficiency and were based on the idea that taxes should be administered by jurisdictional levels able to perform such administration most efficiently. The state was better able to administer certain kinds of taxes (corporate property), while local governments were badly placed for such work (for example, because they tended to lack necessary expertise). Improvement in administration would mean that government would do a better job of tapping special kinds of property wealth, corporate and financial property in particular, thus improving the balance of tax burdens between real and non-real property.

Another rationale was to achieve a better distribution of the revenue from corporate property and public utilities. For example, one might find valuable corporate property situated within a specific locality — perhaps even a relatively undeveloped area that had limited fiscal needs — even though the economic basis supporting this corporate property would be much larger than the locality.

Another important argument was that separation of revenue sources would address the problem of competitive undervaluation. Once the state general property tax was gone, localities would raise assessments to more accurate levels, allowing them to lower their tax rates (which would be good for political and promotional purposes). This, in turn, would tend to reduce inequality of assessments across jurisdictions, and it would foster greater local control over fiscal affairs: by removing the state from the general property tax, localities would be freer to adapt their own fiscal systems to local circumstances. Although separation was partly linked to such ideas of local control and some advocates

[113] Newcomer 1917, p. 11-12, 27; Yearley 1970, p. 194-6; Blackford 1977, p. 201.

viewed separation as a way to invigorate local government autonomy, separation was more commonly viewed as a means to achieve greater centralization of fiscal authority — a necessary step, it was thought, due to the impossibility of real and lasting fiscal reform in an environment where the money machinery was controlled by local political powers.

Finally, a significant rationale behind separation of revenue sources was to increase the revenue available to state government. The most detailed study focusing explicitly on separation of sources advances the argument that this was the driving force. According to Newcomer, separation of sources was something of an incidental effect; the real goal was to supplement the general property tax, to increase revenue: "separation has been only secondarily a conscious 'reform' offered as a definite remedy for unequal assessments and other administrative ills." This fundamental goal behind fiscal reform in the late nineteenth and early twentieth centuries was discussed above; however, even though reformers might have been motivated by this line of reasoning, the actual practice of separation of sources and the adoption of special property taxes appears not to have resulted in higher levels of revenue extraction. In any case, Newcomer is probably correct that this motive was a strong one, regardless of the ultimate political outcome.[114]

Although fiscal experts tended to agree when criticizing the general property tax, separation of revenue sources was not universally viewed as an important reform element. One prominent critic was T. S. Adams. The real issue was the need for equalization and fair assessments, something that Adams believed had not been given a fair trial, and something that could be achieved only through expertise and centralization. By separating sources of revenue, state governments would be removed from concern over general property taxes, which would represent a step in the wrong

[114] For information on the reasons offered to support separation of sources, see Newcomer 1917, p. 1-11, 17-20, quote from p.182; Yearley 1970, p. 196; and Fisher 1996b.

direction.[115] Adams and other critics also argued that competitive undervaluation would persist. The state tax was usually smaller than city and county property taxes. Even if the state tax were removed, the county tax would remain and, according to the usual logic, still provide sufficient motive for competitive undervaluation. Adams pointed out, for example, that separation had not succeeded in combating undervaluation in Wisconsin, and in California underassessment actually became worse: real estate in 1928 was assessed at roughly 42 percent of true value, as compared to 60 percent in 1906.[116] In general, while separation of sources may have led to some administrative improvements, Newcomer's appraisal is quite cautious. The assessed-to-actual value ratios were not markedly improved by separation, and it could be argued that even these modest improvements resulted more from the administrative changes that often accompanied separation of sources (for example, more oversight from state government) rather than from separation itself.[117]

Criticisms of separation of sources also included two contradictory lines of argument. On one hand, it was feared that separation would lead to fiscal extravagance, because state revenue would be coming from a source without direct voting power — from corporations rather than from individual voters. Other critics questioned the revenue-generating powers of separation, noting in particular that some of the new corporate taxes were not very elastic and would not tend to growth adequately with the expansion of population and the economy. More specifically, separation would remove valuable property from the rolls of cities — the jurisdictions most in need of additional fiscal resources.[118]

Special property taxes

[115] Newcomer 1917, p. 22.
[116] Fisher 1996b, p. 124; Stockwell 1939.
[117] Newcomer 1917, p. 184.
[118] Newcomer 1917, p. 21-22, 189; Yearley 1970, p. 196.

During the late nineteenth and early twentieth centuries, the states that went the farthest in the direction of classification and separation of revenue sources were those that adopted what would be called special property taxes. These were predominantly taxes on various kinds of business (especially corporate) property. Earlier in the nineteenth century, states largely treated business corporations like any other property holders. Early departures from this approach were usually applied to corporations that held a quasi-public status — initially financial institutions such as banks and insurance companies. Over time such taxes were applied to a wider set of corporations, particularly "public service corporations" for which an argument could be made that the corporations fell under the regulatory powers of state governments: railroads, street railways, power companies, insurance firms, banks, express corporations, telephone companies, and telegraph companies.[119]

The shift from general property taxes to corporate taxes involved two types of centralization in the taxation of corporate wealth. Specifically, it was taxed (a) at the state level rather than the local level; and (b) at the corporate level rather than the level of the individual taxpayer. The latter shift was tied more broadly to a downgrading or abandonment of personalty taxation and to the gradual conversion of the local general property tax into a real estate tax.[120]

There was great variety in the precise methods and systems used to tax corporate wealth. Because of the complexities, it seems that no two states handled corporate taxation in the same way, and changes in corporate tax provisions were frequent. Some corporate taxes were levied as a kind of fee for the privilege of doing business — and more specifically, for having a corporate charter — within the state. Taxes that were named with this rationale in mind might be called entrance taxes, franchise taxes, and business privilege taxes. Other corporate taxes were named based on their underlying tax base: gross receipts or gross earnings taxes; capital stock taxes; and taxes on various

[119] Scala 2000, p. 175-6; Blackford 1977, p. 201.
[120] Yearley 1970, p. 247.

measures of the volume of a corporation's business (for example, passenger or freight traffic). Another commonly discussed type of special property tax was the corporate excess tax. This method of taxation is telling, because it illustrates how the movement toward state-level taxation of corporations emerged within the larger context of the general property tax. Corporate excess was the par (or market) value of capital stock (sometimes with bonded debt), minus the assessed value of taxed realty and personalty. Essentially, it was an estimate of the corporation's intangible value — that portion of corporate value not included in the usual general property tax assessment.[121]

Just as the exact system of corporate taxation varied considerably from one state to another, so too did the political route taken to achieve these fiscal transformations. In general terms, however, one can say that the adoption of corporate taxation as a replacement for part or all of the state's general property tax involved a negotiation among three important groups: state governments, corporations, and local governments.[122]

The concern of state government — specifically, of the officials, experts, and elected office holders who were charged with improving the state's fiscal affairs — was to generate more revenue or to increase the efficiency of the revenue system. With the adoption of corporate taxation, state governments got a new revenue source, one that was administered by the state government rather than through the old system of local assessment.[123]

For corporations the most obvious benefit was that some of their property was exempted from the general property tax. Unfortunately, we do not have readily available quantitative evidence concerning the key question: did the shift from general

[121] Scala 1998; Scala 2000; National Industrial Conference Board 1931; Higgens-Evenson 2003; Yearley 1970, p. 222.
[122] This general formulation is prominent in Higgens-Evenson 2003. Also see Yearley 1970; Scala 1998; Scala 2000.
[123] Harley Leist Lutz 1918, p. 33.

property taxes to special property taxes tend to reduce corporate tax burdens? Nonetheless, from case studies we have anecdotal evidence suggesting that this appears to have been a significant consideration for business groups that ended up being key lobbying forces in the shift to special property taxation. Examining Wisconsin, for example, Brownlee indicates that the exemption from the local general property tax was viewed as highly valuable by the state's corporations, especially during the late nineteenth century when cities were ratcheting up taxes. Similarly, in Minnesota, rail and telephone companies paid less via a gross earnings tax than they would have under general property taxation. Similar anecdotal observations emerge from cases studies of other states, such as California, New York, and Pennsylvania.[124]

When considering the third major player in the negotiations over corporate taxation — local government — the urban-rural distinction is quite important. Rural concerns were focused mainly on the burdens imposed by the general property tax on real estate, so the fiscal machinery in rural areas tended to overtax corporate property — at least this is an observation frequently seen in the literature. Rural legislators and officials wanted intangible and corporate property to bear a larger share of the public burden. Within urban areas corporations had political influence and often received favorable treatment by the fiscal system. Urban legislators and officials, along with their state representatives, depended substantially on the taxation of corporate property and therefore viewed with suspicion proposals to shift control of such taxation away from localities and toward the states. The key to obtaining the support of this last group was often some form of revenue sharing to make up for the lost corporate property tax base.[125]

Another way to look at this three-way negotiation is to note that two of the parties — state government officials and corporations — increasingly sought administrative

[124] W. Elliot Brownlee 1974, p. 58; Gladys McAlpine Blakey 1934, p. 10; Scala 1998; Scala 2000; Yearley 1970; Higgens-Evenson 2003.
[125] Higgens-Evenson 2003, p. 14, 24, 239-40.

centralization as a primary goal. Along with many fiscal experts, state officials perceived significant drawbacks in the localized system, and they offered economic, legal, administrative, and political arguments in favor of centralization. One economic argument, for example, was that corporations should be taxed at the state level because the scope of their business was much larger than most local jurisdictions. The legal basis for placing corporate taxation at the state level was simply that corporations themselves were entities whose existence was based on the chartering authority of state governments. The administrative difficulties of taxing corporate property at the local level were evident: it was a field requiring a level of technical expertise that many localities were unable to sustain. Centralization, it was hoped, would make it possible to apply a higher level of skill and consistency in administration, with one stated goal being to achieve greater uniformity of burdens across geography, sectors, and specific businesses. Politically, the system of local assessment was too susceptible to the lobbying of corporate interests. The vaguely stated goal of many reformers was to take the "politics" out of corporate taxation, and the more precise hope was that such political influence would be reduced if the administration of corporate taxation were located at a higher level of government, one presumably better positioned to resist outside pressure.[126]

Many corporations also came to view centralization favorably — of course, for different reasons. The most obvious benefit was that the new systems of corporate taxation typically exempted significant portions of corporate wealth from the local general property tax. Perhaps just as important as this immediate benefit was that by removing some types of corporate property from local administration, corporations were able to distance themselves from local fiscal administration, something that many corporations had come to view as unpredictable and difficult to manage, both politically and administratively. In addition, centralization of administration would end up making the fiscal and political system more tractable to business influence. One state government

[126] Yearley 1970, p. 206-7; Harley Leist Lutz 1918, p. 6.

was a simpler lobbying target than a multitude of local jurisdictions. Related institutional changes — particularly the growing role of the executive branch in the budget process — would reinforce this trend toward making the entire field of business taxation more amendable to influence by well-organized economic interests.[127]

Details of corporate tax policy making varied considerably from state to state and over time, making generalization difficult. One of the strongest patterns was the regional trend already noted: the use of special property taxes to replace all or part of the state-level general property tax was pursued the earliest and most fully in the Northeast and Midwest.[128]

Another broad pattern suggested by the historiography is that the course of corporate taxation during the late nineteenth and early twentieth centuries can be broken down for summary purposes into three phases. This matter will be considered more fully later in the chapter, but for now we can summarize the phases.

> • In the first phase, we find many examples of pro-corporate tax policy driven by developmental, promotional, or mercantilist goals. A significant portion of corporate wealth was exempted from the general property tax and, equally important, from taxation at the local (urban) level, the locus of the most rapid growth of taxation during the late nineteenth century. In some instances, this favorable tax policy was combined with favorable regulation, giving the impression of a race to the bottom. Where this occurred, "legislatures went out of their way to make tax policy that would prevent capital flight at all costs. The revisions of corporate tax laws in those states also revealed how corporation taxation created a new and privileged role for business in state government."[129]

[127] Higgens-Evenson 2003, p. 19; Harley Leist Lutz 1918, p. 631.
[128] Higgens-Evenson 2003, p. 14-16; Scala 2000, p. 19-20, 181.
[129] Higgens-Evenson 2003, p. 242-52; quote from p. 252.

• In the next phase, considerations besides business promotion grew in importance. Focus shifted away from attracting investment to a state and toward finding ways to pay for more programs. There was also a wider negative reaction to politico-business corruption and corporate tax dodging — a growing popular view, and to some extent an expert and official view, that corporations were not paying their fair share.[130]

• The third phase, to be explored more fully in the next chapter, might be described as a counter-movement. Corporations used the newly centralized locus of tax policy making — and joined forces with real estate owners and increasingly sympathetic expert opinion — to lobby for fiscal restraint generally and, even more importantly, for another major fiscal shift — one away from property taxation entirely and toward a more widely defined taxpaying public.

Insights from case studies

Although fiscal historiography remains underdeveloped, a few cities and states have received in-depth treatment by historians. These case studies provide an opportunity to illustrate or further develop the themes and arguments of this chapter.

Chicago

Robin Einhorn's history of Chicago during the last half of the nineteenth century is an important contribution to fiscal studies that illustrates the workings of the restrained nineteenth-century fisc and provides a telling example of how entrepreneurial business interests were able to break out of these fiscal limitations — an early example of a

[130] Higgens-Evenson 2003, p. 49-50. Also see p. 43; Yearley 1970, p. 200-2; Harley Leist Lutz 1918, p. 33-6; McCormick 1981.

phenomenon that would be repeated in other places during the late nineteenth century.

Einhorn's narrative is organized in three phases. During the first phase — a booster or "neo-corporate" period from 1833 to 1848 — the city council actively promoted growth, using municipal revenues to build infrastructure and ultimately to raise property values, very much in the vein of the promotional activities of state governments during the same period, as discussed in Chapter 5.

The second phase, from the mid-1840s to the mid-1860s, is described by Einhorn as a "segmented" system. Economic development had created a more diverse set of commercial interests (commodities, banking, manufacturing) that went beyond the real-estate focus of the city's initial booster elite. Even the real estate market itself had proliferated into various sectors. In effect, there was "a business community in the city whose interests no longer could be subsumed under a citywide interest in boosterism," and these various business groups frequently made competing demands on city government.[131] Within this environment a segmented fiscal system emerged that made greater use of privatizing devices like special assessments and special taxing districts to finance infrastructure projects. In addition, the decision-making process was structured to give greatest weight to immediately affected property owners and, at a broader level, to insulate the process from majoritarian politics. Elites clearly benefited from such a system in that their wealth was not redistributed via general fund taxation for projects that benefited others, and property owners with modest means, an important part of the electorate, benefited from the low-tax fiscal environment. Above all, the privatizing devices of the segmented system provided a workable decision process:

> Even the wealthiest Chicagoans still depended on government to manage public works financing. Yet management was different from subsidy. What the developers needed was help in their local consensus building.

[131] Einhorn 1991, p. 67.

> ... They needed a process that ensured — or at least assumed — that public works were not public goods whose merits could be debated citywide. They needed direct control of the improvement of their own holdings, the power to plan local development locally, and they were willing to pay for this power by bearing the costs of their improvement projects on the same local basis. ... While the wealthy paid for their control of policy making in high special assessment levies, therefore, the poor paid for their low tax costs in voicelessness, in a governmental decision-making process based directly on wealth rather than, either directly or indirectly, on the power of numbers of ballots.[132]

There is some ambiguity, perhaps intended, in Einhorn's interpretation. At times the segmented system seems to have been embraced by Chicago's leaders because they believed in it as a matter of principle. One wonders, however, whether the system emerged not so much because Chicagoans viewed it as desirable but because the city's leadership was frustrated in its development efforts by a tax-paying public unwilling to foot the bill. In this light, the segmented system was forced upon the city's leadership by the constrained fiscal outlook of the mid-nineteenth-century polity.

The third phase in Einhorn's narrative begins after the Civil War. The privatizing tendencies of the segmented system were undermined, and a new type of fiscal decision-making emerged, in which powerful groups were able to obtain fiscal subsidies from the city's general fund. A common modern assumption is that government redistribution tends to be progressive, shifting resources from those with more wealth to those with less. In fact, the prevalent nineteenth-century concern was the opposite — that the power of government would be used to redistribute wealth regressively toward a narrow group of well-connected interests.

The pollution issue was a turning point. Under a segmented logic, the cost of nuisances were typically assessed to those determined to have caused it. But during the Civil War, the meatpacking industry was transformed, becoming more concentrated in large cities,

[132] Einhorn 1991, p. 115-6.

and Chicago became a "meatopolis." The economic power of the meatpackers within the city was unprecedented. In this environment, a new kind of argument emerged — advanced, for example, by the *Chicago Tribune* and other option leaders — under which a profitable packing industry was viewed as a public good. The basic concern was the threat of capital flight: "the packers could and did threaten that if the city did not grant them public subsidies, they would leave and take a large chunk of Chicago's economy with them."[133] Faced with such threats, the city's leaders decided to use public funds for the industry's pollution abatement.

A similar turning point occurred with regard to transportation. The issue began with cases in which property owners brought suit for damages resulting from the construction of street railways — on streets for which the property owners had previously paid special assessments. Courts denied the property owners by invoking the notion of a wider public interest in the railroad lines. In an earlier effort to promote the development of transportation resources, the city's aldermen had tried to use a segmented procedure to allow for the provision of transit (in this case, horse car lines) by requiring that the transportation company acquire permissions from abutting property owners, an effort that failed. For the street railway lines the segmented approach was abandoned from the outset

> It was impossible to build street railways if each abutting owner could determine for himself whether a railway on his street benefited him because the railways did not benefit most abutters by definition. They linked outlying property to downtown in order to benefit the outlying and downtown properties."[134]

The legal battles culminated in *Chicago v. Larned*, a case dealing with the heart of segmentation, street building. Although the technical issue that brought the case was narrow, the decision was a far-reaching rejection of the logic underlying segmentation.

[133] Einhorn 1991, p. 211.
[134] Einhorn 1991, p. 217.

The Illinois Supreme Court declared that, while some benefits of infrastructure could be localized, most improvements also conferred benefits more widely — essentially requiring that the city pay for street projects through a mixture of general funding and special assessments. After this victory, the railway companies successfully made two important power grabs: they got the state legislature to pass the Ninety-nine Year Act, which extended the timeframe on various railway ordinances, to the benefit of the railways; and they won a successful legal battle in the U.S. Supreme Court (*Chicago v. Sheldon*) exempting them from the costs of ordinary street assessments on roadways where their lines also ran.

These changes in the fiscal system were related to changes in the leadership of Chicago politics, a shift away from a booster elite and toward a Gilded Age elite of millionaires who had fewer connections to the local community and more connections to the emerging national economy. The segmented system had worked well for an elite whose primary wealth was land and who wanted urban growth, economic development, and infrastructure. Chicago's Gilded Age elite was a smaller group, were less apt to be direct economic competitors with each other, had greater economic leverage over the city's policy makers, and when faced with the tradeoff between infrastructure building and lower taxes probably leaned more toward lower taxes than the booster elite had.

The political and economic power of this new elite was sufficient to break the constraints of the nineteenth-century fiscal culture. Furthermore — in an outcome that was not intended — by opening up the state's coffers for their own benefit, the victorious corporate capitalists planted the ideological seeds that other groups would reap in the twentieth-century age of interest-group politics.

> The segmented system was gone. In its place was a system that used government to redistribute wealth in accordance with public policy decisions made through power politics and interest-group competition. ... The scrupulous concern than city government had shown for the interests of individual property owners disappeared. So too did the

> materialistic rhetoric of personal interest. Now Chicagoans debated policy in a more lofty vocabulary of the public interest. Although the ability to define this interest was limited to a narrow portion of Chicago's elite in the 1860s — and, to some extent, for the rest of the nineteenth century — this elite, the Gilded Age millionaires, had established the existence of a public interest that could be redefined as the distribution of political power changed in the twentieth century.[135]

Race to the bottom in corporate taxation?

A similar kind of dynamic — at the intersection of business interests and the fiscal needs of government — can be seen by examining a phenomenon that has been dubbed charter-mongering. In New Jersey, high debt loads after the Civil War led to rising property taxes, which represented a sharp break from previous years when taxes on railroads had funded most state government operations. The political backlash led politicians to seek other revenues sources. By routinizing and liberalizing its incorporation laws during the 1880s and early 1890s — in particular, by allowing firms to merge horizontally and to hold stock of other companies — New Jersey attracted many of the nation's largest firms to incorporate in the state. Taxes were levied against the authorized capital of firms that incorporated in the state. Later in the nineteenth century other states began to liberalize their incorporation laws and to compete effectively with New Jersey in attracting the incorporations of the nation's largest firms.[136]

In the case of corporate charter-mongering, we find a compelling example of a race-to-the-bottom competition among the states as they modified state policy with an eye toward attracting or retaining capital investment. However, a wider study of corporate tax policy in northeastern states during the late nineteenth and early twentieth centuries argues that it is a mistake to characterize this policy area as a race to the bottom. Scala points out that many states were also imposing a wide array of new

[135] Einhorn 1991, p. 229.
[136] Grandy 1989.

regulations on corporations and were imposing new tax burdens on corporations. Instead of a simple race to the bottom — with corporate tax burdens falling to some uniform, low level — one finds that "states aimed a broad array of taxes at corporations in the early twentieth century, imposing entrance taxes, franchise taxes, capital stock taxes, privilege taxes, corporate excise taxes, and income taxes."[137]

Scala is certainly on the right track in arguing that a race-to-the-bottom caricature will not do justice to the complexities of corporate taxation during the period at hand; however, he probably goes too far in making his case. In particular, he tends to err in taking the existence of a wide array of new corporate taxes as prima facia evidence against a race to the bottom. To do so is to ignore the wider fiscal context. These new corporate taxes were in fact substitutes for the general property tax, which potentially represented a more substantial fiscal burden for corporations — and, even more important, a burden with less predictable political characteristics. Contrary to Scala's assumption, the adoption of corporate taxes could very well indicate the operation of pro-corporate policy making. The most direct measure for this question would be to compare business tax burdens before and after the adoption of special property taxes; however, this sort of quantitative exercise goes beyond the scope of the readily available data. Indirectly, however, we can observe that the new special property taxes were typically not implemented over the objections of the affected industries; to the contrary, such taxes tended to receive strong support from major — although certainly not all — business sectors, particularly the sectors that were the direct targets of the new fiscal instruments. Scala's case studies of New York and Pennsylvania show clearly that state policy in the late nineteenth century was shaped to a significant degree by corporate political influence. This impression is reinforced by other case studies — the work of Brownlee on Wisconsin, Laichas on Califonia, and Ellis on the National Tax Association. One basic conclusion from these studies is that special property taxes were the product of state officials and experts who were, as a general rule, sympathetic to

[137] Scala 2000, p. 6-7, 433.

corporate concerns; moreover, these taxes were fashioned and subsequently administered with a great deal of influence from the affected industries.[138]

The fundamental point is that the shift to special property taxation represented either a reduced or a roughly unchanged fiscal burden and, just as important for the affected corporations, a more manageable political arrangement for future negotiations over tax policy, on both political and administrative fronts.

San Francisco

McDonald's study of San Francisco's fiscal history provides another telling illustration of the way that the confines of nineteenth-century fiscal restraint were broken. His narrative reinforces some of the key themes that Einhorn observed in Chicago, particularly the prominent role played by business groups in breaking open the fisc.

Initially, San Francisco's political-fiscal ideology was governed by a low-tax consensus. Fiscal processes were based on pay-as-you-go financing and routine (rather than highly politicized) decision making. During this early period the tax rate did decline, but the valuation grew faster, leading to incremental expenditure growth in real per capita terms. After the mid-1870s, fiscal policy became more politicized as the parties tried to show that they were more fiscally restrained than their opponents. After both major parties had embraced the Dollar Limit (a pledge to keep the tax rate low), they lost their ability to distinguish themselves in terms of the tax rate. One result was a continued upping of the ante on the other variable they could control — namely pledges to keep the valuation below a certain level. From 1882 to 1892 local politics was very partisan and competitive, with each party trying to outdo the other in driving down taxation, valuation, and expenditure — variables that reached historic lows in 1887. Beginning in the late 1880s, more questions were being raised about the wisdom of extreme fiscal

[138] Scala 1998; Scala 2000; W. Elliot Brownlee 1974; Laichas 1999; Ellis 1991; Higgens-Evenson 2003.

restraint. Newly formed neighborhood groups began calling for the extension and improvement of municipal services (for example, having streets and sewers accepted by the city for maintenance or extending police, fire, and educational services to suburban areas). In addition, some business groups began calling for expanded government activity to foster economic development. They formed a citywide organization that was joined by the Merchants' Association, which consisted of high-status businessmen. James Phelan was founder of the Merchants' Association, which welded these groups calling for an expanded public sector into a political movement. In the 1890s the attacks on the old fiscal consensus became stronger and were facilitated or conditioned by a few outside changes: the electoral reforms already discussed, which led to less party regularity; economic decline, to which reformers responded by calling for greater government efficiency and increased activity in the area of municipal improvements; and changes in state law (state board of equalization, along with other details) that removed the ability of San Francisco politicians to make pledges to limit valuations.

Thus, in San Francisco "the patron saint of the public sector was ... the high-powered downtown businessman," supported by neighborhood groups and some laborers, who saw benefits in a expanded range of public infrastructures, goods, and services. This was an unnatural alliance, with the latter two (neighborhood and labor groups) providing the electoral support and the former (business groups) providing a strong leadership role, almost to the point that the Merchants' Association became an informal branch of government during Phelan's administration. Phelan responded to a new political and institutional environment by forging a political coalition based on an expanded fisc: "The true significance of Phelan was that he was the first politician in the city's history to recognize the possibility of building a political coalition on the basis of promises of benefits from an expanded public sector."[139]

[139] Quotes from McDonald 1986, p. 254 and McDonald 1984, p. 62. For some of the key points in the summary of San Francisco's history see McDonald 1986, p. 129, 142-3, 146-51, 158-9, 172-3, 176-9, 184-7, 192, 194-197, 204. Also see McDonald 1990.

McDonald's history of San Francisco was also set within a broad critique of urban political history. He argued that the field up to that time had been dominated by two all-purpose, fill-in-the-blank approaches to urban political history, a socioeconomic structural theory and a political culture theory. Under the former, increasing population, urbanization, and industrialization generate implicit or explicit demands for greater government services. Such demands for spending come from two dynamics: the negative externalities of socioeconomic development, and a growing relative preference for government services as incomes rise. In such a framework, urban government is primarily a dependent variable, and political explanations for the development of government are generally rejected or not considered. Political decision-making is viewed as secondary because of the powerful technological and economic constraints within which politicians operate. Under a political cultural theory, the differences between the fiscal policies, political ideologies, and cultural ethos of various political groups are the key variables in determining the size and nature of the public sector: what matters is differences in leadership and constituency of the political organizations. The archetypes of post-war historiography emerged from this style of explanation: "free-spending, grass roots, machine politicians who defended an expanded public sector, and the fiscally conservative, upper-class reformers who were obsessed with efficiency, economy, and businesslike management."[140]

The two approaches share a few general characteristics. One is the centrality of the demand side of the fisc: government grows in response to socioeconomic or constituent demands. Another is that the two approaches are functionalist in their orientation: social institutions develop and persist because they perform functions. The approaches also tend to ignore or downplay political and institutional factors such as electoral strategies, fiscal ideology, and the institutional environment within which elections are conducted and policy is made.

[140] McDonald 1986, p. 16.

McDonald subjects the socioeconomic and political culture theories to statistical testing. He divide San Francisco's political history from 1860 to 1905 into five eras, based on the traditional scholarly accounts, and then tests whether these eras are significantly different in terms of fiscal characteristics: expenditures, revenues, valuation, and tax rate. A key finding is that the differences between the eras do not support a classic bosses-versus-reformers political cultural interpretation. Another finding is that, contrary to what one would expect from the socioeconomic structural theory, changes in socioeconomic variables do not map very tightly with changes in fiscal outcomes. Rather, during some periods there were sufficient economic resources for additional taxation, but political and institutional arrangements led to highly restrained fiscal outcomes as the parties competed aggressively to outdo each other in their fiscal negativism. And what characterized the ultimate break from nineteenth-century fiscal restraint was not so much a change in the course of socioeconomic development but rather the culmination of a set of political and institutional changes that led to a new kind of electoral strategy — one premised on an expanded set of government activities.

McDonald's testing of the political culture and socioeconomic structural theories is applied more broadly by DiGaetano, who examines various aggregate fiscal measures for American cities (total revenue, total expenditures, debt volumes, and property tax levies) against the extent of ethnic presence in city government (city officials who are either foreign born or of foreign stock). His data covers 24 cities in 1870, 34 in 1880, 57 in 1890, and 77 in 1900. He finds very weak statistical relationships between these two types of variables: at best, there was a modest relation between the size of the city fisc and the number of foreign-stock city officials (correlations on the order of 0.25). When one examines the fiscal measures according to whether the city administration was controlled by machine mayors or reform mayors, however, the differences are not very striking. If anything, the trend points in the wrong direction, with machine administrations having somewhat smaller fiscs. The socioeconomic structural theory does not fare much better, except in the most general way. Urban government did

expand as industrialization and urbanization proceeded; however, one would expect that this theory would reveal its impact at the level of individual cities as well. DiGaetano tests this by examining the correlation between various socioeconomic measures (manufacturing employment, population growth rate, and population size) and the size of city government (city workforce). In each of the years examined (1870, 1880, 1890, 1900) there is no relationship between government size and population size or growth rate. The correlation with manufacturing employment, while somewhat strong, points in the wrong direction (roughly -0.50).[141]

California

California provides an excellent example to unite many of the themes developed in this and the preceding chapter. It was a state that had strongly embraced the Jacksonian fiscal restraint of the nineteenth century. It was a state that would undergo a profound fiscal transformation during the early twentieth century: although other states were adopting similar reforms, the California "plan ... involved an experiment more extensive and extreme than had been undertaken in any other state."[142] It was a state where partisan politics were heavily influenced by a dominant economic interest (rather than by strong party organizations), in this case the Central Pacific Railroad (which became the Southern Pacific in the 1880s). It was a state where fiscal and policy transformation can be linked to the changing political dynamics. And it is a state whose fiscal history is perhaps the most well studied in recent historiography, notably by McDonald, Higgens-Evanson, and Laichas.

The traditional interpretation of the radical transformation that occurred in the early twentieth century in California comes straight from the Progressive reformers themselves. Fed up with the corrupt political system dominated by political parties and

[141] DiGaetano 1994.
[142] Stockwell 1939.

especially the Southern Pacific, Hiram Johnson and his Progressive allies were said to have liberated the state and returned government to the people by adopting more centralized and efficient administrative and fiscal procedures, by "taking the politics" out of fiscal decision making, and by widening the range of acceptable government activity to deal with the new pressing issues of the time. In this standard interpretation, we find the kind of political-culture interpretation — under which everything changes as a new cast of characters enters office — that McDonald and DiGaetano have critiqued in their analyses of urban fiscal affairs. It is also the kind of interpretation that Daniel Rodgers has criticized as an unhelpful way of viewing Progressivism, in which the emphasis is also on political culture — in this case, identifying the key traits of typical Progressives and non-Progressives, and assuming that policy changes simply flowed from differences in the political, social, or cultural ideology held by these differing groups.[143]

Just as McDonald, Einhorn, and others have described on the urban level, state government in California was characterized by fiscal negativism during the last half of the nineteenth century. This is reflected in flat expenditures for the state from 1860 to 1890, a pattern typical of the national trends described in Chapter 3. This fiscal restraint was driven by partisan strategy within a competitive environment, in which the general property tax united most of the electorate into a coalition opposed to tax increases: "both parties took pains to demonstrate their commitment to limited government and low taxes: failure to do so invited third party challengers such as the Workingmen, the Grangers, and, in the 1890s, the Populists."[144] Fiscal restraint was also reinforced by institutional arrangements. Legislative localism and the geographic diversity of the state tended to exercise a check on expenditure growth. Successful spending coalitions formed only around issues that could generate support across many counties, such as the common schools; if benefits of a program or project were not widely dispersed geographically, it was difficult to obtain legislative majorities. Meanwhile, localism in

[143] Rodgers 1982.
[144] Laichas 1999, p. 20-22.

government structure worked to frustrate the creation of countervailing pro-spending coalitions and to thwart state officials who might have sought greater centralized control over fiscal affairs. Legislative amateurism — that is, high turnover in the state legislature — made it less likely that these sectional and local barriers to spending could be overcome. In addition, the two parties were deeply invested in the existing system of local patronage.[145]

Unlike many states in the Northeast and Midwest that had been experimenting with new fiscal and governmental structures, California was slow to modify its fiscal structure. However, in the early twentieth century, the state rapidly adopted most of the key reforms described earlier in this chapter: separation of revenue sources; special property taxes on public service corporations as a replacement for the state's portion of the general property tax; civil service reform; various types of administrative centralization; and a more expansive fisc at the state level. Although nearly the entire program of Progressive-era fiscal reform was adopted within a very short time frame, understanding the transformation in California requires a longer view.

Operating within the fiscally restrained environment of the late nineteenth century, some groups had begun, starting in the 1870s, to press for — and in some cases mobilize statewide coalitions behind — increased spending in particular areas. Teachers and school officials sought enhanced education funding. Businessmen and professionals obtained government help to tame markets or socialize costs: for example, business groups in San Francisco and Los Angeles lobbied for state aid for port facilities, roads, downtown infrastructure, and other investments; some business groups pressed for state-subsidized research or marketing assistance; and professionals campaigned for state-sanctioned cartels of varying types.[146] Municipalities sought various forms of assistance from state government. Sometimes these groups had success in arguing that their interests were important enough to receive insulation from party patronage or

[145] Laichas 1999, p. 145-6, 255.
[146] Laichas 1999, p. 288-9.

periodic retrenchment — for example, by writing fiscal policy decisions into continuing appropriations or even constitutional provisions. Although state spending would remain flat relative to the economy at least through 1890, such lobbying had effects nonetheless. Spending priorities shifted; administrative structures were sometimes strained by the expansion of new services; deficits were more frequent; and, at least anecdotally, there was a perception of increasing fiscal pressure on state government.[147]

Meanwhile, the dominant political players in California — the Southern Pacific Railroad and the Republican Party — were experiencing their own problems with the prevailing fiscal and political system. In line with the race-to-the-bottom trend that can be observed in other states during the latter part of the nineteenth century, the railroad had received substantial subsidies from the state. However, this led to — or at least was followed by — a political response from workers, farmers, and various small shippers: a Railroad Commission was created to regulate rates; legal battles were fought with the railroads over state taxes; and the railroads experienced labor unrest. In addition, a wider challenge to the Southern Pacific came from the diversification of California's economy — financial services, energy, agriculture, and retail. These newly powerful interests challenged the Southern Pacific's dominance in the Republican Party and began making greater demands on the state for additional expenditures. In response, the Southern Pacific began in the 1890s to engage in state politics more systematically. Whereas previous lobbying had an ad hoc character, typically with a district-by-district focus on individual legislators, the railroad now sought to exert greater control over the Republican Party Central Committee itself.[148] Part of this new approach to state-level politicking involved the creation of the Southern Pacific's Political Bureau. The railroad's efforts dovetailed with other changes that were leading to somewhat greater centralization of fiscal decision making within the legislature, which provided the railroad with a convenient target for its lobbying efforts. As its influence over the

[147] Laichas 1999, p. 256.
[148] Laichas 1999, p. 317.

financial process grew, the Southern Pacific played a kind of broker role among the new claimants on the state's budget.[149]

Such changes in strategy and institutional arrangements were driven by a sense of political vulnerability during the 1890s on the part of both the Southern Pacific and its political allies in the Republican Party. As Laichas writes, "insecurity, not confidence, prompted Collis Huntington to involve the Southern Pacific more deeply in state politics during the 1890s." His gubernatorial candidate had lost in 1890; there was increasing labor unrest; populist influence was growing and calling for a strengthened Railroad Commission; and San Francisco and Los Angeles merchants were putting their influence behind transportation projects not to the Southern Pacific's liking. Party leaders thought that fiscal discipline — and thus political success — depended on taming the pressures of localism. They began to press for changes in legislative procedures similar to those used by the party at the federal level. In particular, the strategy was to give the Ways and Means committee the power to vet all spending proposals in the legislature. This centralization in Ways and Means coincided with the creation of the Southern Pacific's Political Bureau and its increasing efforts to exert greater political influence in ways that would centralize political and especially fiscal decision making.[150]

While the Southern Pacific and Republican Party's leadership were modifying the fiscal decision making process, Progressivism was emerging as a political force in California. It united several political themes. At the center of the agenda for most reformers was what might be called "anti-railroad progressivism" — to weaken the Southern Pacific's influence on policy and politics and to develop more infrastructure to compete with the Southern Pacific's dominance. Another key set of goals dealt with establishing the initiative, referendum, and recall as ways to exert checks against political dominance by entrenched interests such as the Southern Pacific. Finally, there was a group of progressives whose efforts focused on public utilities, social insurance, and various

[149] Laichas 1999, p. 25, 257, 311, 322-4.
[150] Laichas 1999, p. 25-26, 303-3.

other social welfare programs. Such groups tended to share general traits, such as the notion of a public interest, the idea that an expert bureaucracy accountable to a chief executive could stay above politics, and an emphasis on accountability, predictability, and efficiency in governance.[151]

These wider goals of the Progressive movement united with the growing critique of the general property tax, culminating in a radical fiscal transformation in 1910. Under the old fiscal system, which had been in place since 1879, state and local revenues were based mainly on the general property tax. For example, in 1902 the tax accounted for 84 percent of state tax collections and 64 percent of total state revenue. In addition, the general property tax was still predominantly a locally administered tax, one collected by county boards of assessment, with some oversight by the state board of equalization.

The new fiscal system was formally adopted as Constitutional Amendment 1 in November 1910. As a result of this amendment, the state government largely abandoned the general property tax and instead began to rely on various corporate taxes: a gross receipts tax on railroads and other public service corporations; a franchise tax on corporations; a gross premiums tax on insurance companies; a capital stock tax on banks; along with an inheritance tax and various other minor revenue sources. Corporations that were subject to the new state-level taxes then received certain exemptions from the local general property tax. For example, the gross receipts tax on railroads and other public services was imposed in lieu of all other taxes (state or local) imposed on their operative property. Local governments could continue to levy the general property tax against the non-operative property of such corporations (for example, land), but not against the operative property.[152] The expressed goals of fiscal reform were to boost state revenue and to counteract the growing impression of fiscal inequity, which involved several subcomponents: the general property tax's over-reliance on realty, a trend that was moving in the opposite direction of the economic

[151] Laichas 1999, p. 330, 422-430.
[152] Stockwell 1939, p. 1-2; Higgens-Evenson 1998, p. 247; Laichas 1999, p. 401.

trends in the composition of wealth; pronounced discrepancies from one locality to another in the assessment and taxation of real property, due partly to the dynamic of competitive undervaluation; and a growing perception that corporate property was not paying its fair share of tax burdens relative to its economic resources, a perception that was aimed particularly at utilities and quasi-utilities (railroads especially, along with banks, insurance businesses, and gas, electric, telephone, and telegraph companies).[153]

The reforms adopted in 1910 were the culmination of plans developed several years earlier under the guidance of Carl Plehn, one of the era's key fiscal experts. Beginning in 1904 Plehn worked with the governor's administration to craft a fiscal restructuring plan, which was forwarded to the legislature and then referred to a statewide vote in 1906, where it received only 44 percent of the vote. Various concerns appeared to have motivated the rejection of the reform proposal. Some opponents expressed procedural concerns over inserting too many fiscal particulars into the state constitution. Others raised equity objections, noting that the legislature had, in nearly every case, chosen the lowest corporate rates from the ranges suggested by the Plehn commission that had developed the plan. In addition, and perhaps most importantly, urban areas were concerned about the removal of property from their local tax bases. The reform plan's second attempt before the voters, in 1910, was successful, winning nearly 60 percent support. A more vigorous campaign was conducted by proponents to educate voters on the need for tax reform. In addition, some aspects of the plan were modified in response to the objections raised in 1906. In particular, the 1910 Amendment included provisions for transfer payments from the state to local jurisdictions to compensate for lost property tax revenues.[154]

Taken in total, the policy and political changes that occurred in 1910 were a striking combination: a major fiscal transformation; significant changes to the political process, with the adoption of the initiative and the referendum; the election to the governorship

[153] Blackford 1977, p. 146; Stockwell 1939, p. 2.
[154] Laichas 1999, p. 396-; Stockwell 1939; Higgens-Evenson 2003, p. 17-18, 83.

of Hiram Johnson, an entrepreneurial politician similar to San Francisco's Mayor Phelan in that he forged new political coalitions based in part on promises of an expanded fisc, thus breaking out of the old pattern of political competition premised on fiscal negativism; and the adoption of two significant transportation projects (bonds for paved highways and for the expansion of the San Francisco harbor) that both moved the state government in a more expansive fiscal direction and committed it to major infrastructure investments that represented alternatives to rail.

As noted above, the traditional explanation for this set of political and fiscal changes leans heavily on political culture: change occurred when the old-guard Republican establishment was replaced by a reform-minded political movement led by a dynamic politician. In fact, neither the main fiscal transformation (the adoption of special property taxes imposed on corporations) nor the accompanying administrative and political transformation (centralization of fiscal decision making) is well explained by this sort of political-culture approach.

This line of argument can be pursued by starting with the administrative and related political transformations. As Laichas demonstrates in his fiscal history of the California, the old fiscal and governmental structure had expired *before* the Progressives gained power; furthermore, the passing of the old system rested to a great extent not on the efforts of "reformers" but on the political lobbying of the reformers' symbolic nemesis — the Southern Pacific. Specifically, the party leaders had wanted to exert greater control over the fiscal process and thus rein in politically damaging expenditure growth coming from local political pressures — in some sense, this was the party protecting itself from itself. In addition, the Southern Pacific wanted to obtain control over levers of power that would allow it to keep in line recalcitrant party organizations and officials at the local level. In other words, the Progressive movement's fiscal reforms were built upon the centralized administrative and fiscal structure engineered by the Southern Pacific and its allies in the Republican Party leadership. As Laichas writes:

> It was the Southern Pacific which, in the 1890s, began centralizing fiscal decision-making in the Legislature, challenging the state's endemic localism and ultimately recasting both state administration and the state tax code to better consolidate its power. The S.P. acted in this way in order to maintain its power in a Republican Party whose rising professional, small business, banking and 'reform' interests threatened S.P. control over party decision making.[155]

Thus, when the reformers created the new Board of Control in 1911, they were actually following a path of centralized fiscal decision making charted by the old guard. Initial plans for the board (in 1909) had it connected more directly to the Legislature; however, by 1911 it had become a three-member board appointed by the governor. Scandals during the 1900s had convinced Progressives of the need for such an oversight body. In effect, the Progressives took a system of centralization the grew out of an effort to serve the majority party — and its chief interest group, the railroad — in the Legislature and refashioned it around the chief executive. The board had the authority to audit all claims made against the state, along with considerable investigative powers that it exercised in muckraking fashion, which drew applause from Progressives who took such investigations as evidence that Hiram Johnson was forcing the corrupt machine out of state government. In some cases, state agencies would enter into a kind of receivership under board control following these investigations, and the agency would return to controlling its own affairs only after new staff had been hired and trained under board procedures. A key component of its supervision was a system of pre- and post-auditing. Agencies would submit a list of proposed expenditures for the coming month, which the board would review. At the end of each month, agencies would submit reports of their actual expenditures. Through this system — in some sense, very much a precursor of formal budgeting — the board came to exercise considerable influence over routine decision making in state agencies. To some extent the board's supporters were correct: it probably did get rid of some corruption and it did initiate a more standardized

[155] Laichas 1999, p. 252; also see p. 24, 31, and 353.

bureaucratic style in state governance. On the other hand, the board ended up approving the vast majority of the requests before it, and the amount of corruption uncovered was a good deal smaller than the surrounding publicity. In addition, the board's power was circumscribed in a significant way: only about 30 percent of state spending fell under the board's purview. Excluded were bond payments, spending mandated by statute or constitution (for example, on education), and self-financing agencies such as the Highway Commission, the Department of Fish and Game, and the University of California.[156]

Just as a political-culture approach, with its emphasis on the contrast between reformers and the old guard, fails to appreciate the history of the movement toward fiscal centralization, so too does it misread the change in tax instruments from the general property tax to corporate taxes. The Plehn tax plan was not anti-corporate or anti-business: Carl Plehn asserted that "this movement contains nothing that is hostile or dangerous to capital or to the corporations."[157] The commission that drafted the plan emphasized that it would be a net benefit to the business sectors that would fall under the new centralized taxing system. The package of fiscal reforms adopted in 1910 had a wide array of establishment support: the governor, the Board of Equalization, and the leadership of both parties; the financial sector; tax experts such as Plehn and Seligman; groups concerned about the real estate market, such as realtors, the Grange, farm groups, and small-town newspapers. Perhaps most telling was the support given to the plan by railroads and other public service corporations that would be subject to the new state-level taxes. The degree of active support given by targeted industries to the adoption of special property taxes was probably fairly high in California relative to other states; nonetheless, the phenomenon was hardly unusual. As a rule, special property taxes adopted during the late nineteenth and early twentieth centuries generally received support from the affected business groups. The new gross receipts tax in California represented a simplification and probably a lower overall tax burden for the

[156] Laichas 1999, p. 438, 443-72, 499.
[157] Blackford 1977, p. 150.

public service corporations. A key motivation was the greater order and simplicity that the new system would bring: instead of dealing with (and sometimes having to bribe) numerous local jurisdictions, corporations could focus more of their political and administrative attention on a single government, the state level. "In short, public service corporation officials backed tax reform because it promised to rationalize one of their major business expenses."[158]

Even though the fiscal reforms adopted in 1910 had strong support from a wide range of established interests, there were critics. As noted in the discussion of the failed 1906 reforms, city officials were particularly concerned about sacrificing part of their own tax bases — a concern partly addressed in the 1910 package of reforms. Other critics, such as T. S. Adams, worried about the long-term fiscal health of local governments left only with the property tax. Some critics opposed the severing of the political-fiscal connection between the electorate and state taxation: with the state government now relying on corporate taxes, it no longer drew the bulk of its revenues from a tax instrument that directly burdened the electorate.

But the most powerful critics of the plan had a much simpler concern, one that also goes a long way toward explaining the general phenomenon through which special property taxes received political support from the affected industries. It is important not to make too much of the simplification benefits that special property taxes offered to corporations. Because non-operative property would still be subject to local taxation, railroads and other affected corporations still had to deal with fiscal administration and politics at the local level. That leaves the most straightforward explanation: lower overall tax burdens for the affected industries. Although we do not have solid empirical evidence concerning corporate tax burdens before and after the adoption of special property taxes in states like California, the political behavior speaks for itself: rarely do

[158] Higgens-Evenson 2003, p. 82-3, 253-6; Blackford 1977, p. 154-7; Laichas 1999, p. 402-4.

industries or economic sectors lobby for fiscal changes that result in higher direct tax burdens.

Conclusion

Overview of the major transformations

As noted in the introduction to this section of the dissertation, the period from roughly 1870 to 1920 witnessed three major fiscal and political transformations.

• The first was a movement away from the general property tax and its local system of administration. Many states adopted various measures that moved incrementally away from the general property tax system — for example, more centralized administration or at least some degree of central supervision, along with partial steps toward property tax classification. Several states — initially in the Northeast but with more geographic variety as time passed — took bigger steps: they implemented separation of revenue sources, with the state government abandoning in whole or in part its claim on the general property tax and instead relying on special property taxes. Through such policy changes, the generality of the general property tax diminished: more types of property moved into their own realms of taxation; less emphasis was placed on the taxing of personalty; and in the aggregate, the general property tax was behaving more like a real estate tax. In line with these trends, even though many states would continue to rely heavily on the property tax until the early 1930s, there was a pronounced ideological movement away from the principles of the general property tax.

• The second major transformation was a movement away from the constrained fisc of the latter part of the nineteenth century. Government began to grow

faster than the economy, starting in the late nineteenth century for the local sector and in the early twentieth century for state governments. This faster growth ultimately became tied to centralization: unlike the last third of the nineteenth century, when government growth was to be found, if at all, at the local (especially urban) level, the twentieth century would be one in which the fastest areas of fiscal expansion were at the more centralized levels — both state and federal.

• The third major transformation occurred in both the behavioral and institutional aspects of electoral politics. Specifically, rates of voter turnout dropped significantly and permanently, and there was less party regularity in voting behavior.

Each of these transformations was complex and multi-faceted. Because the discussion in this chapter covers a lot of territory, it might be helpful to summarize the story and to bring these three transformations together.

The starting point for such an overview is the restrained fiscal environment during the last three decades of the nineteenth century. Due to high rates of property ownership and the institutional arrangement of American politics, politicians found themselves in a tightly competitive, highly mobilized environment aggressively trying to win support from voters acutely sensitive to burdens placed on property. Pre-election promises tended to focus on fiscal restraint rather than expanding the scope of government activity. Pressure for government growth, if it was to come at all, tended to come from government officials hoping to expand their departments or from elites and business groups within urban areas wanting to use government for various development-oriented projects. In order to achieve political agreement on such projects, funding usually involved various types of privatizing or semi-privatizing fiscal devices. This meant that the general voting public did not have to pay directly for many of these projects,

but it also meant that the course of much government activity fell outside the realm of democratic politics.

The prevailing fiscal and political institutions were then confronted with socioeconomic change: industrialization, urbanization, and the growing importance of corporate organization. At this point in the story, all-purpose explanations for fiscal change are typically invoked. The core argument focuses on the socioeconomic transformation, and the explanation is couched in terms of problems that are solved by new policy. For example, the well-known externalities of urbanization and industrialization are said to have generated demands for government action to remedy those problems, which in turn led to the fiscal outcome: a more expansive fisc. Another line of reasoning is that socioeconomic development made the old tax instruments increasingly dysfunctional. In the specific case at hand, the general property tax was said to be both inequitable (unable to tap non-realty) and insufficient (unable to generate enough revenue to address the growing needs). Yet another strand is that socioeconomic development resulted in ever larger concentrations of wealth and economic decision making (in the form of corporations) that were able to rival state and local governments, resulting in a political system impaired by corruption. When the core socioeconomic argument is wedded to a political-culture approach, the explanations for policy change emphasize the cast of characters in charge of government, with the usual contrast being between the old guard and the reformers — the latter being those groups and individuals who correctly perceive the problems.

The deficiency in such all-purpose explanations is not usually that they are wrong in the narrow sense or that they draw attention to unimportant developments. Socioeconomic changes were crucial. New demands for government activity were being expressed, and these demands sometimes led to a reorientation of government purposes. Many examples of dysfunction in the fiscal system and in the broader political system can be

cited, and even if such concerns were sometimes overdrawn by the participants, these concerns had the power to become defining features of the political landscape.

That said, some aspects of these traditional interpretations can be shown to be erroneous. This chapter has directed some skepticism at the usual portrait of general property tax dysfunction. It is not clear, for example, that the fiscal system was becoming markedly less able to tap property wealth, and the Census Bureau data often cited to support this portrait was known from the outset to be flawed, in a manner that exaggerated the alleged problem. Studies of urban fiscal politics have cast serious doubt on both the socioeconomic and political-culture accounts. In particular, the usual stereotypes of free-spending machine politicians and economy-minded reform politicians have been completely disassembled by such analyses. Even more fundamentally, some of the case studies discussed in this chapter have shown that the new fiscal policies adopted by "reformers" drew heavily upon political and institutional changes advanced by the needs of the "old guard."

The deeper problem with the all-purpose explanations for fiscal change has less to do with such misperceptions than with the more general fact that they are badly specified. They are badly specified in failing to detail the mechanisms or processes by which socioeconomic changes get translated into policy outcomes. This lack of specification makes it particularly difficult to make sense of situations when socioeconomic change fails to result in the kinds of policy outcomes expected by the all-purpose explanation. If the socioeconomic forces driving fiscal policy changes operated in a direct fashion, we would expect to observe some fairly strong statistical relationships between socioeconomic indicators and fiscal policy outcomes. As will be detailed in Appendix 1, clear-cut statistical relationships of this kind are difficult to find consistently over time. Such considerations lead to the observation embedded in the schematic model of policy change introduced at the beginning of this section of the dissertation — namely, that the linkage between socioeconomic change and policy outcomes is far from mechanistic

(Figure 25). Socioeconomic changes need to be translated into their effect on the incentives and then the changed behaviors or ideas of individuals and groups (the macro-explanation requires micro-foundations). Furthermore, the outcome of such a process can be substantially affected by existing rules and institutions, which guide the way that individuals and groups are able to pursue their evolving preferences (the effects of socioeconomic change necessarily run through the intermediary of the existing political system). As Skowronek writes in his study of state-building at the federal level:

> State building is prompted by environmental changes, but it remains at all times a political contingency, a historical-structural question. Whether a given state changes or fails to change, the form and timing of the change, and the governing potential in the change — all of these turn on a struggle for political power and institutional position, a struggle defined and mediated by the organization of the preestablished state.[159]

Schematic narrative

To be fair, the all-purpose explanations discussed here are partly real (they have exerted a strong influence on existing historiography) and partly straw-men. Moreover, the arguments advanced in this chapter do not attain the standard of social scientific explanation offered as an ideal — that is, in which macro phenomena are always connected to their micro foundations as filtered through existing institutional arrangements. Nonetheless, the ideal is a worthy one. Even though this chapter does not attain the ideal, it does make an explicit effort to specify the kinds of developments that make the connection between socioeconomic change and policy change more concretely specified — in effect, to state more clearly some of the mechanisms or processes by which the fiscal changes occurred. The remaining discussion in this chapter will briefly state some of these mechanisms in the form of a schematic narrative.

[159] Skowronek 1982, p. ix.

Socioeconomic change modified the calculus of voters and property owners, creating not so much specific demands as a new strategic environment. Perhaps the place to start is where the all-purpose explanations start: socioeconomic development and the resulting externalities of industrialization and urbanization. Rather that treating these developments as the cause of widespread "demands" for government to do something, we instead try to imagine how such developments entered into the calculations of ordinary voters and property owners.

The usual reasons for opposing higher taxation still applied. Property ownership remained fairly widespread, and it was the primary strategy used by working and middle class households to attain economic security and advancement. Wealth owners are particularly sensitive to burdens placed on wealth, especially when the burden carries with it the threat of economic disaster (in this case, foreclosure). And after the decline in turnout, the correlation between property ownership and voting was probably increasing, yielding an electorate that was just as sensitive — possibly even more sensitive — to the burden of property taxation.

However, new developments were entering into the considerations of voters. Against the usual burden of taxation would be weighed the benefits of government action to address the externalities of urbanization, industrialization, and corporatization. Perhaps more to the point, some of these externalities might have posed growing threats to the property-based strategies for economic security and advancement. The simplest example along such lines is the way that the wealth of urban homeowners can be substantially impacted by the presence or absence of urban infrastructure near the property.

While vitally important to the final outcome, the effect of socioeconomic development on changing the calculations and incentives of the mass of voters and property owners needs to be properly understood within the overall process. Policy — and especially

fiscal policy and similarly technical areas — tends to be heavily influenced by leaders, officials, experts, and organized interest groups rather than the preferences of the masses. To say this is not to deny the key role of such preferences, particularly in defining boundaries within which policy outcomes will tend to reside. As Erikson, McIver, and Wright have observed in their study of public opinion and state policy making:

> [Public preferences form] "opinion dikes" within which activists and elected officials may act. Public opinion, in this perspective, seldom "demands" much, nor does it speak with a clear voice. Rather, it sets the boundaries that rational politicians seek to learn and then heed. Within these dikes, or areas of discretion, many of the more visible aspects of day-to-day political life in the states have their influence.[160]

Thus, mass preferences need to be understood not as direct causes — *the public demanded a solution to the problem* — but rather as a kind of potential, a modified strategic environment within which politicians and interest groups operate to formulate specific policy options. Indeed, this point can be taken farther. Not only do diffuse public preferences tend not to lead directly to policy outcomes, but specific policies advocated by effective interest groups or implemented by victorious political leaders can themselves have a feedback effect in influencing the crystallization of concrete policy preferences in the wider public.[161]

Opinion leaders and interest groups favoring different fiscal policies emerged, but they were frustrated by the constraints of the existing party system. As social and economic conditions changed, opinion leaders — for example, officials, politicians, journalists, academics, experts, and business groups — began to articulate more specific responses. Much like the evolution of the incentives of ordinary voters or property owners, the emergence of opinion leaders focusing on a particular issue is a fairly

[160] Erikson, McIver, and Wright 1993, p. 252.
[161] As depicted in Figure 25. Also see McCormick 1986, p. 80.

general phenomenon and cannot, by itself, form the basis for a direct explanation of policy change.

In the late nineteenth century, these individuals bumped up against a political system that was tightly controlled by an existing two-party system, through which most programmatic demands had to be filtered. Moreover, these parties operated within a tightly competitive environment that placed strict limits on the purposes to which government could be put.

Frustrated by the difficulties of achieving their programmatic goals within this system, such opinion leaders did two basic things: they took steps toward organizing more formal groups to apply influence outside the parties, and they tried to play the closely balanced parties against each other. Ultimately, the best-organized sectors turned to other ways to press their political goals — interest group politics rather than party-based politics — and they joined in the wider critique of partisan governance.[162]

The critique of party governance began to form as a more distinct political wing and agenda. This critique was led by elites who had been excluded from the usual party channels. Recall that the influence of various kinds of social leaders had been significantly reduced after the Civil War as the Republican Party pursued an aggressive party building strategy. Such excluded Republicans came to see the highly partisan system of governance as a problem. They were variously called Liberals, Independents, Mugwumps, or, later in the story and with some differences, Progressives.

Such reformers led a broad intellectual critique of party governance, an attack that resonated with various interest groups that were frustrated by the constraints of the existing system. The goal was to purify American politics, to free political processes and the state apparatus from dominance by venal masses and a corrupt elite. The reformers

[162] McCormick 1986, p. 21.

combated party governance both substantively and stylistically or culturally. They also pressed for reforms to go after the party system itself. Civil service reform, in particular, struck at the heart of party power (patronage and candidate assessments), while simultaneously appealing to the fiscal imperatives of an intensely competitive partisan environment (retrenchment, low taxes, and so forth). In addition, they campaigned for limitations on the sources of party finance and for electoral reforms to make independent voting easier. And, of course, they led various political campaigns as reformers or insurgents.

A key development in the translation of such interest groups and grievances into a more formal political wing was the sharp decline in electoral competitiveness within regions and states at the turn of the century. As this happened, *intra-party* battles between reformers and the old-guard became more pronounced.

Changing conditions were also placing new strains on the parties, which began to alter their electoral and fund-raising strategies. It is important to remember that the reformers did not steamroller the parties. To the contrary, many of the political reforms were enacted while parties were still influential, either because the reforms did not seem immediately threatening or because the reforms also addressed problems the parties were experiencing.

A growing electorate, changing technologies of communication, evolving residential patterns — these and other developments were making the old methods of labor-intensive electoral mobilization either less effective or less attractive relative to alternative political strategies. In particular, the decline in electoral competitiveness within regions and states meant that the benefits of a political strategy based on high mobilization were dubious: the party in power within a non-competitive state had considerably weakened incentives to focus energies on intensive voter mobilization; meanwhile, the party out of power had an incentive to mobilize more voters, but the

barrier to success had become formidable. As the old high-mobilization methods began to seem relatively expensive when weighed against their efficacy in engineering political victory, parties began to experiment with new strategies and ultimately to abandon the labor-intensive politics of the nineteenth century.

As mobilization strategies were changing so too were funding strategies. Patronage-starved parties turned to new funding sources by formalizing relations with industry and business groups, and the inflow of such resources diminished the relative value of party patronage and the officeholder assessments that it generated. In addition, civil service reform was having at least a marginal impact on the federal level and in some states.[163]

Interest groups responded to the less competitive environment. Within this less competitive electoral environment, interest groups altered their strategies further. Rather than challenge the dominant party directly by supporting the other party so that it could mount a mass mobilization strategy — a seemingly impossible task in many areas — interest groups sought policy influence by waging campaigns within dominant parties, and some of the most important political battles became intra-party rather than inter-party.

Interest groups also sought policy influence by lobbying the state more directly, outside the realm of electoral politics entirely. This strategy became more relevant as the state expanded its menu of activities.

> Interest groups now structured political decision making through their symbiotic ties to legislative committees and administrative agencies. Political representation by mass-based parties thus became relatively less important, and small, specialized, functional interest groups dominated the arena of administrative politics.[164]

[163] Skowronek 1982, p. 75.
[164] Kornbluh 2000, p. 159.

Entrepreneurial politicians forged political coalitions outside of the party system, using the glue of government spending. In response to all of these dynamics arose of a new kind of politician. Such politicians were entrepreneurial in two senses: they were less dependent on parties for support, and they started to break free of the usual method of fiscal-political competition. Rather than campaigning within the tight parameters of two parties battling over promises to keep taxes low, they formed coalitions based partly on promises for new government programs. The resources of the public sector — instead of being used to fund a party that supported the candidate — were now being deployed to forge coalitions within a larger, but less regular and less mobilized, electorate.[165]

Under both the old and new systems, government revenue was the glue holding the political system together. In the nineteenth century, parties competed to get votes of a highly mobilized and highly loyal electorate and thus to achieve political victories that led to office holding, which then generated funds (through officeholder assessments) that were required to fund voter mobilization campaigns. In the twentieth century, the promise of government activity was used to forge coalitions of somewhat diverse (and even contradictory) interest groups: services for middle-class neighborhoods; wage and various social guarantees for workers; "good government" for middle-class and affluent professionals; physical infrastructure for major economic sectors; and regulatory legislation that appealed to middle-class and working-class groups in addition to the regulated industries themselves.

These new political strategies did not necessarily emerge through an act of sheer inventiveness so much as a search for viable alternatives within an environment where the older methods did not work (because the would-be politician was not well-established within party channels) or did not work as effectively (because the old mobilization tactics were not leading to election victories).

[165] McDonald 1986, p. 166-7; also see Scala 2000, p. 21.

Two general points are worth noting in this context. First, the key change was not so much the mounting environmental pressures on the state, though these were real indeed; rather, the key change was "an alteration in the strategic universe of political and institutional action facing those in control of the state apparatus."[166] The second general point is to emphasize the two-way relationship. Rising interest groups created a political opportunity that entrepreneurial politicians could tap to bypass the party grip on power. In turn, the mobilization of such groups was enhanced — and their attachment to the state was confirmed — through the political strategies of such entrepreneurial politicians.[167]

Business groups played a crucial role in opening up the fisc. One of the key reasons such political entrepreneurs were able to break out of the confines of the old fiscal system was that the locks had already been taken off the door. Interest group lobbying during the nineteenth century — still very much within the old, constrained fisc — had provided a precedent for a new style of fiscal politics. The lobbying of organized business interests had led to a variety of policy changes justified under a "public interest" doctrine. The fisc was not initially opened up by social reformers but by corporations and various business groups that managed to outmaneuver other groups within the old fiscal system. By opening up the state's coffers for their own benefit, such business interests planted the ideological seeds that other groups would reap in the twentieth-century age of interest-group, welfare-state politics. As Einhorn writes:

> Pluralism — the competition of interest groups to define public interests — had few democratic outcomes in Gilded Age America. It was, and often still is, the means by which elites gained upward redistribution of wealth from government. But the idea that something called the public interest did in fact exist, was a precondition for democratic policies that would have been inconceivable to the Jacksonians."[168]

[166] Skowronek 1982, p. 167.
[167] McDonald 1990, p. 235.
[168] Einhorn 1991, p. 241-2; also see p. 22.

Centralization was a key goal for political and economic leaders — one that made the fiscal system more amenable to business influence. Both the entrepreneurial politicians who ended up leading state governments and the organized business groups then ended up being the targets of new fiscal devices began to perceive significant benefits in the centralizing aspects of the fiscal reforms under discussion.

Skowronek's study of state building at the federal level highlights the key role of the chief executive in pressing for a new kind of administrative state. The president (or the governor at the state level) was the one actor in the political system who potentially stood to benefit from the reform agenda: "the bureaucratic remedy promised the chief executive his own national political constituency, independent institutional resources, and an escape from the limitations that a locally based party state imposed on national leadership."[169] As these developments combined — chief executives who were less dependent on parties and who controlled a larger administrative apparatus — governors began to assume roles as both as an initiator of policy (governor as chief legislator) and as a strong, independent voice in the public forum (governor as opinion leader).

The centralization of administration and the related institutional changes made the fiscal and political system more tractable for business groups. For example, centralization of fiscal authority at the state level (as opposed to the local level) created a simpler target for the lobbying efforts of businesses and other well-organized groups. Much like the centralization from the local level up to the state level, the centralization of fiscal influence within in the executive branch — which was increasingly occupied by entrepreneurial politicians with bases of support independent of partisan control — was more readily influenced by the corporate sector. In some states, corporations became more directly involved in politics, policy making, and legislative processes. In the fiscal

[169] Skowronek 1982, p. 170.

realm, the National Tax Association would play a key role in offering business-minded guidance to government tax policy making. In addition, a variety of connections — both intellectual and personnel — formed between state governments, corporations, and the various expert groups on fiscal affairs. The adoption of corporate taxation at the state level was a central policy area within which such connections were formed, and it provided a means by which previously less formal (though sometimes strong) corporate-government relationships became institutionalized.[170]

In addition, as states shifted from the general property tax to corporate taxation, the field became even more dependent on special expertise and thus became the exclusive province of the well-connected. State taxation was well understood by very few people — tax attorneys, legislators, state officials, and members of groups with experts whose purpose was to study taxation. To some degree, such interest groups, in their publicity role, "replaced the political party as the medium between taxpayer and voter."[171]

Special property taxes were an important instrument in breaking open the fisc at the state level. Special property taxes were a particularly apt fiscal device for the initial break from the confined fiscal environment at the state level. They still fit under the property tax rubric, broadly defined, and thus could be perceived as an incremental fix. They also had the advantageous political characteristics of not directly taxing ordinary voters while receiving support from targeted industries, which perceived special property taxes as a preferable alternative to the general property tax.

Political evaluation of the shift to special property taxation

Having summarized some the key dynamics involved in the fiscal and political transformations during the 1870-1920 period, we return to the question that opened

[170] Higgens-Evenson 2003.
[171] Laichas 1999, p. 664.

the chapter — namely, the political evaluation of the shift to special property taxation. As evidenced by the discussion in this chapter, there is no need to choose exclusively among the three evaluations: (a) a neutral, expert reform in response to an old tax that was dysfunctional under modern conditions; (b) a democratic correction in response to corruption or other political-fiscal abuses; and (c) a reflection of pro-corporate (and generally pro-affluent) policy making and of a solidified influence of well-organized groups over the political system.

A historical and geographically attentive approach is ultimately required to determine which interpretation might be more or less apt at different times and places; nonetheless, at least in rough terms one can model the narrative in three phases.[172] During the first phase, corporate tax policy has some of the characteristics of a race to the bottom, as state governments placed heavy emphasis on attracting or retaining capital investment and on granting political victories to corporations — most notably for this discussion, the exempting of corporate property from local taxation, which was the only government level exhibiting fiscal expansion during the late nineteenth century. At the end of the century and during the first decade of the twentieth century, there were political reactions against the pro-corporate slant of tax policy and against partisan governance in general. This phase of the story is captured fairly well with McCormick phrase about the Progressive era — "the discovery that business corrupts politics."[173] Finally, the third phase, beginning in the 1910s and gaining momentum in the 1920s, can be described as a counter-mobilization against such reactions, as new political alliances were formed between business groups and property owners organized around anti-tax sentiment. Such political counter-movements would lead to a shift away from corporate taxation and instead to sales and income taxation as even more thoroughgoing replacements for the general property tax. This phase will be explored more fully in subsequent chapters.

[172] Higgens-Evenson 2003, p. 39-42, 46-7.
[173] McCormick 1981.

In light of the coming developments, then, the third way of viewing the shift to special property taxation seems most apt, at least from a long-term vantage point. More broadly, the tendency to read corporate taxation (or, in the next chapter, income taxation) as "progressive" or "popular" is misguided. At least in the forms in which they were implemented as working policy, they were not mass, radical, or agrarian fiscal reforms, and they owed little to popular movements. As Yearley and Stanley have convincingly argued concerning the income tax — and such observations apply with even greater force to special property taxes — they were respectable, middle-class, insider reforms, very much products of the establishment. They were taxes for experts, editorial boards, affluent wealth holders, and businessmen.

When compared to the general property tax, special property taxes benefited the elite, the corporate sector, and the merely affluent — all groups that perceived a direct benefit in shifting away from the pure wealth taxation embodied in the ideals, if not the actual practice, of the general property tax. In addition, the common view was that these new taxes — on corporations, on businesses generally, and even on certain types of income — could be readily shifted to consumers via the price structure. As Yearley writes:

> The middle classes had far less to fear from [the new fiscal devices], especially considering the generous rates and tolerant exemptions, than they did from personalty taxation. While income taxation, corporate taxation, and other changes engineered in the money machines of the Northern states and their municipalities were real reforms, they also promised to be a real relief to that small number of property holders who had long been convinced they were financing both the revels of the new wealth and the bread and circuses of the new democracy.[174]

If we take such an interpretation to a more general level, Daniel Rodgers' observations about the Progressive Era become especially helpful. He argued that "the fundamental fact of the [Progressive] era is not reform in any traditional sense of the term, but the

[174] Yearley 1970, p. 250; also see p. 248 and Stanley 1993, p. 80-1.

explosion of scores of aggressive, politically active pressure groups into the space left by the recession of traditional political loyalties."[175] To make sense of the adoption of special property taxes during the late nineteenth and early twentieth centuries, we need to see such reforms in the context of a much bigger phenomenon — the rise of modern, weak-party, issue-focused politics. And who wins at pluralist politics, particularly in an environment of political demobilization? The well organized — as we shall see in the discussion of the next phase in the movement away from the general property tax.

[175] Rodgers 1982, p. 115-7.

Chapter 7.
Early twentieth-century income taxation

This chapter deals with the first phase in the history of twentieth-century state income taxation. During the 1910s and 1920s, fifteen state governments added corporate income taxes, personal income taxes, or both to their fiscal arsenals. These early income taxes were different than the income taxes used — usually on a temporary basis and without much revenue impact — by some states during the nineteenth century. They were also different than the fully modern income taxes that would emerge and become widespread in the second half of the twentieth century. And at least for the purposes of historical periodization, they can be distinguished from the wave of income taxes that were adopted starting in 1929 amid the backdrop of the Great Depression.[1]

Whereas the motivating context for tax adoptions in the 1930s would be economic crisis, the context for the early income taxes was the one described in the previous chapter dealing with special property taxation. The same broad socioeconomic changes were underway: increasing urbanization, industrialization, and corporate organization. Within that socioeconomic context, three major changes in the fiscal and political systems of state and local governments were still occurring: movement away from the ideals and practices of general property taxation and toward various replacement levies; broad changes in governance toward more expansive and centralized fiscal arrangements; and a transformation in the practice of electoral politics, which had become less partisan and less highly mobilized. The new environment was one in which

[1] The discussion in this chapter mostly excludes the four income tax adoptions that occurred in 1929 (Arkansas, California, Georgia, and Oregon), even though many of the political events associated with these taxes occurred before the Great Depression started in October. Setting the dividing line at 1929 makes some sense because of the six-year gap since the previous state income tax adoptions (1923), and because the 1929 taxes would be implemented in the context of the economic crisis.

the general property tax continued to suffer from a kind of political legitimacy crisis, and in which entrepreneurial political leaders — both elected politicians and top administrative office holders — occasionally broke from nineteenth-century patterns and campaigned on promises of more expansive fiscal policy.

In addition to occurring within the same socioeconomic and political contexts, early income taxes and special property taxes had the same underlying fiscal motivation — namely, to serve as replacements for portions of the general property tax, especially those coming from intangibles. Early corporate income taxation, in particular, had a close affinity with special property taxation: both were intended to replace the part of the general property tax apparatus that was supposed to tap the taxpaying capacity embodied in the non-realty assets of corporations. An illustrative example discussed at length in the previous chapter was California's radical fiscal transformation in 1910, in which various corporate taxes were adopted as replacements for the part of the general property tax that the affected corporations had paid, or at least were supposed to have paid. Specifically, a gross receipts tax on railroads and other public utilities was imposed in lieu of all other taxes (state or local) on their operative property, and a gross premiums tax was imposed on insurance companies.

Special property taxes and early corporate income taxes were not alike in all respects. One set of differences dealt with timing and scope: special property taxation started earlier and spread more widely than the early corporate income taxes discussed in this chapter. Another difference concerned the type of measure used as a proxy for the taxpaying capacity of corporations: the older corporate taxes had often used gross measures (receipts, for example), whereas the new income taxes typically involved the concept of net income (gross income minus the cost of generating that income). Even though both types of corporate taxes had the political and legislative intent of tapping corporate property, the change in the measure of the wealth from gross to net involved a more general shift away from taxing property wealth itself (a stock) and toward taxing

income (a flow). Another difference, of course, was that corporate income taxes were often adopted alongside personal income taxes. In this sense, the 1910s and 1920s represent a transitional phase sitting between special property taxation and modern income taxation, which would becoming less corporate and more personal with each passing decade. This early phase in the history of state-level income taxation was the one during which it was most heavily focused, both in intent and incidence, on corporate assets rather than household assets.

Because the early twentieth-century income taxes emerged out of an economic, political, and fiscal environment very much like the one described in the previous chapter, the discussion here does not need to provide as much context. Instead, this chapter focuses more closely on historiographic critique. To a greater extent than the literature on corporate taxation, the historiography on early income taxation remains stuck in — or perhaps has reverted to — a highly traditional approach, one inherited directly and without skepticism from the middle-class, business-minded Progressive era fiscal experts and reformers.

With the larger intent of reexamining and critiquing some of the assumptions that pervade scholarship on early income taxation, this chapter continues the overall narrative on the historical development of state tax systems, paying particular attention to the most fully studied case, that of Wisconsin. Where possible, this narrative is supported by quantitative evidence from the fiscal dataset prepared for this dissertation or from data reported by contemporary fiscal analysts.

In addition, this chapter will pose a slightly modified version of the question asked in the previous chapter concerning our political evaluation of the shift from the old tax to the new taxes. As before, the three options, which are by no means mutually exclusive, are the following: early income taxation as a neutral, expert reform of an increasingly dysfunctional fiscal system; early income taxation as a democratic correction to the

rising power of elite interests; and early income taxation as a reflection of the solidified influence of elite interest groups over the political system. This way of framing the topic — in particular, the third option — falls outside the scope of most recent historiography on the early income tax.

Overview of the problems with recent historiography on early income taxation

Before turning to the historical details, it might help to frame the discussion by providing an overview of the major problems with the historiography on early income taxation. These weaknesses are interrelated, and they are especially prevalent in recent scholarship on the period, notably the work of Teaford, Mehrotra, and, to a lesser extent, Higgens-Evenson. The problems are less severe if we return to the best historiography on the topic from a generation ago — namely, that of Yearley and Brownlee. The problems will be stated rather starkly here; naturally, they vary among the historians and even within the work of individual scholars.[2]

- **A blurring of the differences between early and modern income taxation**. Many accounts of the income taxes adopted during the 1910s and 1920s are fundamentally ahistorical in projecting the intentions and outcomes associated with modern income taxation (the period since World War II) onto the early income taxes, which were adopted within a very different context, for different purposes, and with different results.

- **An insufficient appreciation for income taxation's role as a replacement for the general property tax**. To be sure, no fiscal historian of this period is unaware that income taxes were adopted to replace all or part of the general property

[2] Teaford 2002; Mehrotra 2003; Mehrotra 2008; Higgens-Evenson 1998; Higgens-Evenson 2003; Yearley 1970; W. Elliot Brownlee 1974; and W. Elliot Brownlee 1976.

tax; however, this point is frequently forgotten when offering wider interpretations of early income taxes or of the broader political issues.

• **An exaggerated portrait of general property tax dysfunction**. When recent historiography on early income taxation does mention the wider fiscal context, it usually involves an exaggerated description of the dysfunctional aspects of the general property tax. In doing this, recent historians are guilty of accepting uncritically the assessments made by the participants — the Progressive era reformers and scholars who have exerted such a strong influence over modern fiscal historiography, in part because that generation of scholars arguably paid more attention to fiscal matters and basic government structure than any generation since.

• **A reliance on all-purpose socioeconomic explanations for fiscal change**. The previous problem is often tied to the more general one here, a pattern of explanation that has been critiqued in previous chapters: socioeconomic change (urbanization, industrialization, corporate organization, and so forth) lead though a poorly specified causal chain, including vague "demands" for government services, to a fiscal outcome that is said to be more functional under modern conditions. The Progressive era reformers and scholars had (incorrectly, as we have seen) characterized the general property tax as a tax for simple agrarian economies and had documented its ill fit with modern social and economic conditions. Recent historiography on early income taxes accepts this diagnosis without much consideration.

• **An assumed association — perhaps even causation — between income taxation and fiscal expansiveness**. One article in the brief on the dysfunction of the general property tax was its alleged inability to generate sufficient revenues to support the kinds of activities needed from state governments under modern

social and economic conditions. The corollary is that reformers solved this problem by adopting income taxes — in other words, that income taxation was associated with government growth. The impoverished state of fiscal historiography is exemplified both by our collective ignorance concerning the answer to this narrowly empirical question (a provisional answer will appear in the ensuing discussion), and by the widespread assumption in the historiography that we already know the answer, when in fact we do not.

• **A tendency to view state income taxation through the federal lens**. One part of the explanation for the assumed association between early income taxation and fiscal expansiveness is the tendency in the historiography to apply the narrative arc of federal income taxation to the state level. On the federal level, income taxation was associated with dramatic fiscal expansion, as discussed in Chapter 3. On the state level, the story is more complicated: the size of the state government sector did grow more rapidly; however, using income taxation to account for this change is another matter.

• **A flawed periodization: the premature arrival of the income tax regime**. There is a pronounced tendency in the historiography to treat the early income tax adoptions as marking the arrival of a new fiscal regime centered on income taxation. In schematic terms, the narrative runs like this: Wisconsin adopts its income tax in 1911, demonstrating the new tax's potential; other states follow, including and especially New York; and with that event we have entered the modern, reformed fiscal world. In some instances, the fiscal historian will mention that the new regime was still partial, noting the small number of states with income taxes on the books or the small share that income taxation represented in the average state's budget. However, such qualifications do not alter the thrust of the interpretation very much, and most of the emphasis is placed not so much on how the early income taxes actually operated as on the

seeds they contained. As documented in Chapter 3, an accurate overview of state-level taxation needs to pay more attention to two other fiscal regimes: one dominated by auto-related taxes starting in the 1920s and the other by general sales taxes starting in the 1930s. Not until the better part of the twentieth century had passed would income taxation achieve a co-equal position with sales taxation in the overall structure of the state-level fisc.

• **A geographic blind spot — the South**. Our best information and most of the historiography about early income taxation focuses on the North, especially the states of Wisconsin, New York, and to some degree Massachusetts. Roughly half of the early income tax adoptions were in Southern states, and we know very little about the political events leading up to them.

• **An exaggerated view of the progressiveness, progressivity, and populist character of state income taxation**. This flaw in the historiography is perhaps related the tendency noted above — namely, viewing state-level income taxation through a federal lens. Federal income taxation did indeed represent a progressive change: it taxed only the highest earners and it replaced a sales tax (the tariff). On the state level, the analysis is more complicated.

• **An insufficient appreciation for the redistributive significance of replacing the general property tax**. When evaluating the impact of a fiscal change on various socioeconomic groups — and thus its political implications and perhaps is political explanation — one needs to consider not only the new tax (income taxation in the some abstract sense) but also the old tax (income taxation as a replacement for the general property tax). The contrast between an old tax and its replacement invariably leads to questions about the redistributive impact of a fiscal reform. The problem here is not that the historiography on early income taxation fails to recognize the potential for conflict — or, if not outright conflict,

then at least conflicting interests — among various socioeconomic groups. As we shall see, a prominent theme in the historiography on early income taxation involves conflict between urban and rural interests and between economic sectors, notably agriculture and manufacturing. Rather, the problem is that the existing historiography has a special blind spot for what is arguably one of the most significant redistributive aspects of the fiscal change — namely the shift *away from wealth taxation*.

• **A unhelpfully framed debate over the most prominent case study, namely the income tax adoption by Wisconsin in 1911**. On one side of this debate we have a narrow portrait of interest group politics driving the adoption of the tax, specifically one framed as the rural imposition of a redistributive tax on urban industry, especially manufacturing. In response to that position, we have a politically naive defense of the genuineness of the fiscal reformers' motives and, implicitly, a disavowal of interest group considerations.

Based on discussions in prior chapters, the narrative pattern in this traditional approach is familiar by now. Socioeconomic change leads to "pressures" and "demands" for spending that the old, dysfunctional fiscal system cannot support. Semi-heroic reformers, motivated mainly by technical or neutral concerns, advance the cause of reform, overcoming several key obstacles: an entrenched party system, constitutional constraints, and localism. The new fiscal system, administered by experts rather than partisan, narrowly-local officials, is more equitable, more progressive, and capable of yielding sufficient revenues, because the tax is well suited to modern socioeconomic conditions. The new fiscal instrument then underwrites a much-needed expansion of the public sector along various lines: to regulate the urban, industrial, and corporate economy; to mitigate the negative externalities of such economic development; to improve state social services, notably in the areas of education, hospitals, and carceral institutions; and to build physical infrastructure in support of socioeconomic

development. A couple of quotations from two historians writing in the twenty-first century illustrate how a narrative inherited uncritically from the Progressive reformers themselves fits easily into current historiography on the topic:

> The large-scale structural pressures created by the rise of corporate capitalism and the decline of an obsolete tax system forced all levels of government to reexamine the substance and administration of their fiscal policies. At the state and local level, many governments addressed the mismatch between the increasing demand for state services and the declining supply of revenue by turning to new levies and innovative forms of administration.[3]

> State policymakers and tax experts were in accord about the flaws of the general property tax, but by the second decade of the twentieth century they also doubted that the triad of classification, centralization, and separation would cure the ills plaguing the state tax structure. What was needed was a tax that could be more effectively administered than the general property tax and that was more elastic than public utility imposts. It needed to reach the growing wealth derived from intangible property, and its burden should rest equitably on the citizenry. The experts and lawmakers were to find this magic solution to the revenue dilemma in the income tax. The income tax was the greatest contribution of the state tax reform movement.[4]

Although not all of the historiographic problems can be fit neatly under a single umbrella, there is a theme here: many of the problems just noted can be connected to the broader problem of paying insufficient attention to the general-property-tax context within which early income taxes were adopted. A central argument of this chapter is that when trying to make sense of early income taxation, a great deal of leverage can be gained by focusing on the *old tax* that was being replaced.

Context

[3] Mehrotra 2008, p. 94.
[4] Teaford 2002, p. 55.

Before considering the details of early twentieth-century income taxation, it will be helpful to provide some background information on several closely related topics: inheritance taxes; nineteenth-century state income taxes; evolving expert opinion on income taxation; expert accounts of the adoption of early income taxation; and the federal income tax. In addition, the current section will provide some additional context for broader themes and the historiographic critique offered in this chapter.

Inheritance taxes

Inheritance taxes were adopted or expanded by many states in the late nineteenth and early twentieth centuries. Like the income taxes adopted before World War II, inheritance taxes were paid only by the very affluent, due to the exemptions that excluded most of the population from any tax liability. Inheritance taxes and income taxes from this period also had in common the basic characteristic that they were designed explicitly as remedies to the general property tax problem, especially its difficulty in reaching intangible assets. Inheritance taxes, however, are lodged more firmly within the property tax framework than income taxes: like the general property tax, an inheritance tax is a wealth tax.

In broad strokes, the narrative of inheritance taxation can be summarized in two time periods. During the nineteenth century, until about 1890, there was no strong movement toward the expanded use of inheritance taxation by state governments. The taxes that did exist tended to use fairly low, flat rates, and they usually applied only to collateral heirs, not direct descendents. Starting in the 1890s, inheritance taxation gained momentum and altered in character. With relative political ease, many states adopted or expanded the tax, typically with more progressive (and thus higher) rate structures that applied to both collateral and direct heirs.[5]

[55] Huebner 1904; Millis 1905; and Yearley 1970, p. 226.

Although never a dominant part of the state fisc, inheritance taxation was far from trivial in its quantitative impact. As shown in Table 14, the tax was widespread by the mid-1910s. The typical state had an inheritance tax reliance on the order of 5 percent. Because some of the larger states relied more heavily on inheritance taxes, the tax represented nearly 10 percent of tax revenue for the state government sector taken as an aggregate. In a few states, inheritance taxes represented as much as a quarter of tax revenue. During the 1902-1927 period, 14 states reached a tax reliance value of 10 percent or higher.[6]

In the abstract, the shift toward inheritance taxation seems to represent a progressive turn in fiscal politics: it was a tax with a progressive rate structure and with exemptions confining the tax to the wealthy. However, the tax's progressiveness is moderated somewhat by the context in which it was adopted. The typical form of inheritance taxation that had emerged by the 1910s on both the federal and state levels tended to represent a significant tax break relative to the prior fiscal alternatives. Payment of the inheritance tax relieved an estate of penalties resulting from the decedent's likely evasion of the general property tax, which would be readily discovered in probate. Also avoided were federal and state income tax liabilities. Inheritances had been taxable under the 1894 federal income tax, for example, but not under the federal and state income taxes of the 1910s, and not under the model law advocated by the National Tax Association. In addition, inheritance taxes were usually structured to maximize exemptions: rather than exempting an amount from the total estate and dividing the remainder among the heirs, inheritance taxes typically allowed each heir to claim an exemption.[7]

[6] *California*, Colorado, Connecticut, Illinois, *Massachusetts*, Montana, New Hampshire, New Jersey, *New York*, Pennsylvania, Rhode Island, South Dakota, Utah, and *Wisconsin*. The italicized states have received significant coverage in the fiscal historiography.
[7] Ellis 1991, p. 373-5.

Nineteenth-century income taxes

Also relevant to understanding the development of early twentieth-century income taxation is the history of the tax during the nineteenth century. Depending on the classification of tax provisions, 16 to 20 states used income taxation during the nineteenth century. Usage was more common in Southern states, and a fair number of the taxes were adopted as temporary measures financing the Civil War and its aftermath. At the turn of the century, six states still had an income tax in place, five of them in the South. Even though the fiscal device had been tried by a fair number of states, its revenue results were typically meager.[8]

As implemented, nineteenth-century income taxes had much in common with personalty taxation. The intent was often to use the assessment of incomes as a proxy for personal property value that was supposed to fall under the general property tax. In some cases, the tax was framed as a property tax upon occupations or trades, using income as a measure. Income taxes were also sometimes written to apply not to all income but to income from sources not already taxed by the general property tax. Like the general property tax, nineteenth century income taxes made a virtue of proportional (fixed) rates, in contrast to the graduated rate structure typically used in the twentieth century. Perhaps the most important practical similarity between nineteenth-century income taxes and the general property tax was in administrative structure: both relied on local assessment and collection, along with self-reporting of assets, without additional checks.[9]

Expert opinion and the National Tax Association

[8] Kinsman 1903, p. 110; Lyons 1915, p. 77-78; Rebecca Jean Brownlee 1944, p. 1.
[9] Plehn 1926, p. 287; Newhouse 1984, p. 1929-34; Kinsman 1903, p. 112-3; and Lyons 1915, p. 77-8.

As a result of its administrative weaknesses and thus its poor revenue performance, state-level income taxation was widely rejected by fiscal experts and government officials at the turn of the century. Delos O. Kinsman, for example, was an economist who would ultimately play a key role in drafting Wisconsin's pioneering income tax legislation. He was also a student of Richard T. Ely, another prominent fiscal expert from the period. Kinsman's 1903 dissertation surveyed state-level income taxation up to that point. Its conclusion was grim and widely cited: "The experience of the states with the income tax warrants the conclusion that the tax, as employed by them, has been unquestionably a failure. It has satisfied neither the demands for justice nor the need of revenue." Edwin R. A. Seligman was like many experts of the time in thinking that state income taxes would be no more successful than the attempts of states to tax personalty. In addition, he pointed to the disadvantages income taxes would impose on states eager to attract corporate investment. With such considerations in mind, Seligman favored income taxation only at the national level. Ely, who had advocated state income taxation in an 1886 study, ultimately came to agree with Seligman that the tax was most appropriate for the national government. Thomas S. Adams, who viewed the tax's state-level prospects more favorably than most, summarized the prevailing opinion in 1911: "today the economists of this country have lined up in opposition to the state income tax in an array so nearly unanimous that the outside world would be justified in asserting that current American political economy is against the state income tax." At the more practical level, the California tax commission led by Carl C. Plehn had explicitly rejected an income tax in 1906, a decision typical of most tax commissions during the 1890s and 1900s.[10]

Expert objections to state-level income taxation were framed almost entirely around pragmatic considerations. The tax was not usually opposed on theoretical grounds. Moreover, the drift in academic work on taxation had been toward a set of general concepts that seemed conducive to income taxation: away from the benefit concept

[10] Quotations from Kinsman 1903, p. 116; and T. S. Adams 1911, p. 302. Also see Teaford 2002, p. 55-6; Rebecca Jean Brownlee 1944, p. 47; and Yearley 1970, Chapter 7 and 231-32.

(taxes as payment for benefits received); toward the notions of faculty (taxing according to ability to pay); and toward progressivity, rather than proportionality, when determining ideal rate structures.[11] Not until Wisconsin's successful income tax of 1911 were the pragmatic objections to state-level income taxation overcome. After that, expert opinion shifted in a decidedly favorable direction.

The most influential forum for the evolution of such ideas was the National Tax Association (NTA). The organization was formed in 1907 when several experienced tax reformers joined forces in Columbus, Ohio. From that year and throughout the 1910s and 1920s, the NTA would publish thousands of pages of fiscal research, discussion, and advocacy. Especially in the Northeast, Great Lakes, and Pacific states, the organization would achieve considerable success on its reform agenda.[12]

The centerpiece of that agenda was the elimination of the general property tax, particularly as it applied to personalty and corporate property. In addition to being favored by the fiscal experts and government officials who attended NTA meetings, this goal was also supported by organizations such as the Chamber of Commerce, the American Bar Association, the National Civic Federation, the National Municipal League, and the American Economics Association.[13] One way to summarize the NTA's typical approach to fiscal problems is with the idea of *classified taxation*, broadly defined. Rather than favoring a general and uniform property tax, NTA members tended to advocate particularized taxes tailored to industries, sectors, classes, or groups. The net effect of the reform agenda was to transform general property taxation into a local realty tax. The resulting fiscal gap would then be filled with a diverse array of new taxes, typically levied by the state government. As part of this process, the other general reform goals discussed in the previous chapter would also be achieved: separation of

[11] Yearley 1970, p. 225, 229-30; and Higgens-Evenson 2003, p. 77-84.
[12] Ellis 1991, p. 47-53. Also see Pyle 1922, p. 365.
[13] Ellis 1991, p. 51.

revenue sources between state and local government, along with the centralization and professionalization of fiscal administration.

The NTA was seemingly a neutral voice for reform and often has been interpreted as such in the historiography. There are exceptions to this tendency to treat the Progressive era fiscal experts uncritically. One is Yearley's *Money Machines*, which develops a nuanced interpretation of both the NTA and fiscal experts generally. Yearley's account is fully aware of the affluent biases in their analyses and reforms. Another exception is Ellis, whose dissertation provides an in-depth study of the NTA during this period. Quite unlike most historiography, Ellis's work is highly suspicious of the NTA and its reform package.[14]

Without question, academic and public service motivations were important in the NTA, and the writings of its members deserve to be taken seriously as well-intended reforms. At the same time, the NTA membership represented elite business, government, and professional interests, not the public at large and not even the middle class in the broad sense. In a detailed analysis of occupational affiliations of NTA members covering the 1907-1917 period, for example, Ellis found that roughly 40 percent of the interests represented by NTA members fell in the business category, with the most important areas being lawyers, especially tax lawyers; banking, especially investment banking; railroads and utilities; insurance; and real estate. Business sectors that were relatively underrepresented were manufacturing, mining, farming, and small business generally. Meanwhile, another 30 to 40 percent of the interests represented fell in the government category. The most common profession in this area was state tax commissioners and similar government officials from either the state or the local level. The third major category consisted of expert professionals — mainly academics and especially economists — who represented about 12 percent of the interests tabulated

[14] Yearley 1970, especially Chapter 7; and Ellis 1991.

by Ellis. A fair number of these experts had business ties as well, such as investment banking.[15]

Whereas the income tax had been championed by groups such as the Populists in 1890s, its most influential advocates during the Progressive era looked a lot like the types of people attending NTA meetings. The NTA's reasons for supporting income taxation during the 1910s and 1920s were very different than the reasons offered by the Populists during the previous generation. Rather than being motivated by progressive, equalizing, or agrarian concerns, the NTA wanted, above all else, substitutes for the general property tax. T. S. Adams's first NTA article on the income tax, for example, was titled "The Income Tax as a Substitute for the General Property Tax on Certain Forms of Personalty in the State of Wisconsin."

The NTA reform agenda was influenced by its views favoring policies to support capital formation and to universalize taxpaying. Only with such considerations in mind it is possible to make sense of the support that the NTA-inspired income tax proposals received from Chambers of Commerce and related business interests.

A strongly enforced general property tax — especially if administrative improvements could be achieved to make it apply more fully to intangibles — represented the wrong kind of fiscal reform for the NTA. Among the most influential NTA voices in favor of income taxation were the economists T. S. Adams, Edwin Seligman, and Charles Bullock (also an investment banking consultant). They were European-trained economists who backed income taxation in part because of the advantages they perceived in the English and German fiscal systems that gave preferential treatment to investments. By directly taxing capital — if only in theory rather than always in practice — a general property tax overburdened capital and under-taxed both consumption and non-owners. Not surprisingly, the NTA favored a highly classified or fractured income tax containing a

[15] Ellis 1991, p. 126-32 and 323-4. The analysis by Ellis considers the occupational affiliations of NTA members. A single member could represent more than one interest.

panoply of deductions, exemptions, and differential treatments. This reform strategy was analogous to the classification of property taxes. By shifting from a general tax framework to a classified one, NTA members and similar fiscal reformers from the period hoped to design a tax system that would allow the state to use its fiscal levers to foster, rather than discourage, economic development through capital formation and investment.[16]

NTA members also saw in the income tax an attractive means of taking preliminary steps toward universalizing taxpayer status, the goal being to build in popular checks against government extravagance. Whereas a property tax is confined to those who own valuable assets, the reach of an income tax is determined by the level at which personal exemptions are set — a highly adjustable parameter that could evolve toward a situation in which every citizen would directly pay some taxes.

Seligman's account of the New York income tax

The centrality of the general property tax to the Progressive era fiscal reform agenda is illustrated in an influential document from the period: Seligman's account of the adoption of the New York income tax in 1919. Even though Seligman tells his readers exactly where to look, this centrality has been lost — or rather underexplored — in recent historiography on early income taxation. The problem is not that historians fail to mention the general property tax; rather, the problem is that Seligman's diagnosis of the general property tax is accepted uncritically, such that his history of the New York income tax would be very much at home, without critique or amendment, in twenty-first century writing on the topic.

[16] Ellis 1991, p. 193, 335-55, 370; Yearley 1970, especially Chapters 1, 2, and 7; also see the related discussion in Chapter 6.

Seligman emphasizes that the elimination of the general property tax was the ultimate goal in his reform agenda as an advisor to the state of New York. In more concrete terms, the goal of fiscal reformers like Seligman was to end personal property taxation and thus to narrow the scope of the property tax, converting it from a general tax on wealth into to a realty tax. Seligman indicates that as early as the 1880s he believed the general property tax was not suitable as the primary revenue source for the state. Because a frontal attack on the personal property tax was not politically viable, he concluded that the most promising lines of reform were those discussed in the previous chapter: *classification*, which involved taxing different type of personal or intangible property separately and at lower rates, rather than under the general property tax; and *separation of sources*, which involved the state abandoning all or part of it claim on realty taxation and instead finding *alternative revenue sources* that it could administer directly.

Seligman is explicit in stating that classification and separation of sources were means to a larger end. Separation of sources, for example, quickly evolved (by the 1890s) to include a seemingly contradictory element: sharing the revenue of the new state-administered, classified property taxes with local governments — in other words, a situation much like the old general property tax regime, in which one level of government administers a tax and diverts part of the revenue to another level; however, in this case, the administration would occur at the center rather than the periphery. Seligman does not point out the contradiction, but he is clear in stating the ultimate purpose of the reform agenda:

> The principle of separation of source — utilizing new sources of revenue for state purposes alone — was intended ultimately to get rid of the state direct tax [the general property tax]. The principle of division of yield — apportioning the proceeds of a centrally assessed tax between state and locality — was designed to lessen the local pressure upon personal property invested in business or otherwise and thus to speed the day

> when the tax on personalty as a part of the general property tax might be abandoned.[17]

Fiscal reformers like Seligman pursued a gradualist strategy, approaching their larger goals though many incremental steps: a collateral inheritance tax in 1885; a corporate organization tax in 1886; racing taxes in 1887; an inheritance tax on direct heirs in 1890; a liquor license tax in 1896, the revenues to be shared with local governments; a special tax on banks and related financial institutions in 1901; a stock transfer tax and a mortgage tax, again with revenue sharing, in 1905; and a secured debt tax in 1911. These developments, most of which fall under the rubric of the special property taxes discussed in the previous chapter, paved the way for fiscal administration centralized at the state level.[18]

The culmination of Seligman's reform narrative is the adoption of income taxation, first in 1917 on certain types of corporate income and then more completely in 1919 with both an individual income tax and an expanded corporate income tax. Perhaps a little guilty of self-promotion and attributing more forethought into his plans circa 1880 than there really was, Seligman frames the story as one indicating the underappreciated influence of visionary experts, and he characterizes the result as "a real fiscal revolution, the beneficent results of which will gradually be realized by the community at large." He viewed New York's fiscal reform as one likely to be a model for other states to follow and summarized the accomplishment in the following widely quoted statement: "For the first time in American history a leading industrial state discarded the general property tax and substituted a general income tax on both individuals and corporations."[19]

[17] Seligman 1919, p. 523.
[18] Seligman 1919, p. 523-8.
[19] Seligman 1919, p. 545 and 528; also see Yearley 1970, p. 241.

Historiographic context: the progressive reform that should have been

Narratives like Seligman's — in which a major state on the forefront of socioeconomic development adopts a modern fiscal instrument to fund an expanded menu of government functions — have been at the center of most of the fiscal history written about this period and about the income tax especially. In part, the ubiquity of this storyline rests on the frequency with which Seligman's writings — and those of like-minded fiscal experts from the period — serve as the main (and sometimes only) primary source materials in fiscal studies. But it goes deeper than that. In many fiscal histories, state income taxation is the progressive reform that should have been, and sometimes it even gets stretched into the progressive reform that actually was.

To put the case bluntly, progressive governance should have been funded by a progressive tax. This line of thinking can be found, for example, in Sidney Ratner's classic work, written in the Progressive tradition, on federal taxation. Ratner emphasized the theme of conflict between "the thrust for social justice and the counter-thrust for private gain," which was played out in fiscal politics as a battle between progressive instruments like income, inheritance, and excess profits taxes and regressive instruments like the tariff.[20] Writing in 1942, Ratner felt that the progressive income tax had won the day for social democracy, providing a just method of funding a welfare state and an active foreign policy to promote democracy elsewhere.[21]

In light of this attractive vision and the corresponding narrative at the federal level, income taxation among the states ought to have been compelling and widespread. Seligman certainly had high hopes in 1919, and most fiscal historians of this period — Teaford, Mehrotra, Higgens-Evenson, and even Yearley — frame their historical narratives to culminate with income taxation during the 1920s. Thus, to emphasize statistics about the actual utilization of state-level income taxation — or, in most cases,

[20] Ratner 1942, p. 9 and 511-14.
[21] Also see W. Elliot Brownlee 1996, p. 3-36.

its absence — during the first half of the twentieth century is, to some extent, to spoil the party.

Framed in this way, the low utilization of income taxation becomes a "Why no socialism?" question in American fiscal historiography. In fact, such questions — and the engaging political conflict envisioned by Ratner between the forces of progressivity and regressivity — were the at the forefront when this dissertation was in its early stages. Why didn't states rely more heavily on income taxes? And looking ahead to upcoming chapters, why did so many states choose regressive general sales taxation during the 1930s instead of progressive income taxes?

The puzzle is well articulated in Yearley's discussion of early twentieth-century income taxation — tellingly, in a chapter called "The Breakthrough":

> On the face of things it might be wondered why income taxation, particularly on the state level, was not an irresistible reform. Considering the potential opposition to corporate taxation, it might be supposed that, comparatively, income taxation would have carried the day with relative ease. ... Certainly the country's several thousand millionaires were an inviting target of tax collectors.[22]

As noted above, inheritance taxes with progressive rate structures did indeed spread widely during this period, and they fell on the same elite socioeconomic group as the early income taxes. And despite sometimes difficult and always complex political negotiations involving state and local governments and the affected industries, a wide array of special corporate taxes were adopted by most states during the period as well. Why not income taxation?

Part of the explanation, at least for the tax's relatively slow start, lies with the nineteenth-century history discussed above. Based on the experiences with Civil War

[22] Yearley 1970, p. 226.

income taxation, and with nineteenth-century income taxes generally, the instrument was widely regarded as an administrative disaster by both academic experts and government officials.

Perhaps even more important — especially in the minds of the urban, affluent, and business-minded groups and individuals who tended to exert the most influence over the details of fiscal policy making — was income taxation's stigma as policy backed by agrarians and populists. The income tax seemed to represent an ideal reversal of roles for farmers: under the general property tax, urban intangibles were particularly difficult to locate, assess, and tax within the prevailing administrative apparatus; under income taxes, rural incomes promised to be both elusive and typically below the taxable threshold. Well-known statistics on the incidence of the federal income tax burden across states, and among urban and rural areas within states, provided ample evidence of where the tax would fall. Due to its nineteenth-century advocates and history, "income taxation took on connotations of radicalism and sectionalism, in addition to associations of corruption and administrative failure and a reputation for being anti-democratic, anti-republican, and inquisitorial."[23]

Before state-level income taxation could succeed politically, it had to be embraced by the middle-class and affluent experts, officials, and business groups who exerted the most influence over the details of fiscal policy making — which meant that it needed to address their chief fiscal concern, the general property tax. In the minds of such leaders, income taxation's chief virtue would not be its progressiveness but its ability to serve as a replacement for personalty taxation. To do that, income taxation needed to be less threatening to middle-class and elite groups than personalty taxation was. Before this sort of fiscal trade could occur, farmers had to be convinced to abandon their historically strong attachment to personalty taxation.[24]

[23] Yearley 1970, p. 231; also see p. 225-35 generally.
[24] Yearley 1970, p. 237-9.

In addition to those political roadblocks, the income tax had to overcome its practical liability in the minds of government officials and fiscal experts. The tax needed a demonstration project to prove that it could be administratively viable and that it could generate sufficient revenue to replace personalty taxation. Such a demonstration would come in 1911 from the state of Wisconsin, which adopted an income tax yielding significant revenue at low cost and with relative administrative and political ease. Only after this successful demonstration did experts and policy makers give the income tax a more serious look.

Thus, rather than being a triumphant reform — the natural progressive fiscal device to fund expanding progressive governments — state incomes taxes were adopted for rather pragmatic reasons. Kossuth Kennan, a key player leading up to the adoption of the Wisconsin income tax and the person appointed by the state tax commission to supervise its administration, summarized the tax's political appeal and ultimate success as follows:

> The advocates of the law seemed to be actuated not so much by any wild enthusiasm for the income tax as by a desire to find some substitute for the iniquitous personal property tax. The surprising thing about this was that the people of the state should view with complacency the repeal of the tax on intangible personal property — a step which usually arouses a storm of indigent protest from those who look upon any such move as being in the interests of the wealthier classes. It must be remembered, however, that for ten years the permanent State Tax Commission had been carrying on a campaign of education, by means of their published reports and otherwise, which was calculated to bring out in bold relief the gross inequalities and general ineffectiveness of the tax on intangible personal property.[25]

Or, as Yearley aptly puts it, state income taxation would arrive in Wisconsin and other states "with a whimper and not with a roar."[26] Rather than being a reform motivated by progressive ideals and advocated by the representatives of the common man, the tax

[25] Kennan 1911, p. 171.
[26] Yearley 1970, p. 235.

was backed mainly by urban, middle-class, affluent, and business interests eager to replace a form of wealth taxation that was unappealing to such groups both because it worked poorly and because it carried a threat of working well. At least for one closely involved observer (Kennan in the quote above), the most noteworthy political fact about this fiscal reform was that a ten-year of public education campaign by a state tax commission had been able to convince the common voter to endorse the abandonment of wealth taxation.

The federal income tax

Although the Wisconsin income tax of 1911 would provide the most compelling demonstration causing fiscal experts and government officials to give state-level income taxation a fresh look as a viable alternative to the general property tax, the federal income tax of 1913 provided further momentum in that direction. In addition, the federal income tax would have a helpful effect for the cause of state income taxation by providing a de facto standard for the definition of basic concepts such as gross income and allowable deductions.[27]

The federal income tax, however, must be not be applied too directly when trying to make sense of early income taxation at the state level. The political and economic dynamics were very different. As several historians of the federal income tax have observed, the rhetorical battles over the tax had a highly ideological tone.[28] Fueling this ideological conflict was the central fact that income taxation at the federal level represented a choice between two taxes that were demonstrably very different in their incidence, one progressive and the other regressive. At least on the surface, this was fiscal politics on the grand scale. Because of its incidence, income taxation also carried with it a heavy theme of regional conflict. Since the Civil War income tax, supporters

[27] Concerning the latter point, see Harley L. Lutz and Wright 1920, p. 76.
[28] King 1993; Witte 1985; Stanley 1993.

and opponents of the tax tended to split along urban-rural and sectional lines — a classic battle between low-income and export-based agricultural regions that were more common in the South and the more industrial areas typically found in the North. Such regional positions on income taxation were a natural response to economic conditions: tariffs had protected the industries of the North from international competition and imposed a corresponding burden on the South, which had an economy centered on agricultural exports. Representatives from the South tended to resist taxes on consumption and instead favored taxes on income, of which the region had relatively less. Such regional positions are evident, for example, in the voting patterns on the 1894 federal income tax.[29] King aptly summarize the politics of federal income taxation on its rhetorical dimension:

> To income tax proponents, existing consumption taxes, which bore primarily upon the mass of citizens, were seen as being the production of undemocratic elite domination of the political process and as relieving avaricious wealth of its just obligations. To income tax opponents, by contrast, the subjection of a single class of taxpayers to discriminatory penalties simply because of their higher earnings demonstrated the dangers that an aroused populace could pose when the precept of equal treatment before the law was contradicted by short-run advantage.[30]

This type of grand political battle pitting agrarian and industrial interests against each other — along with a corresponding battle between forces of progressivity and regressivity — does not apply directly to the state-level politics of income taxation. Indeed, even on the federal level, focusing too much on this grand debate misses the deeper truth that income taxation was largely a policy that came from the political center, one intended to stave off more radical alternatives and one keenly attentive to the most powerful segments of society.[31] Such observations apply with particular force on the state level, where income taxation was advanced and crafted by middle-class and affluent experts, officials, and business interests.

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[29] Witte 1985, p. 68; and Baack and Ray 1985.
[30] King 1993, p. 101-2.
[31] Stanley 1993.

The other crucial difference between federal and state income taxation lies in the fiscal context. In neither case was the new tax adopted simply because its advocates favored it in the abstract. As a general rule, new taxes are not embraced; rather, they *replace*. And the old taxes differed greatly: at the federal level was the tariff, a consumption or sales tax; on the state level was the general property tax, particularly its personalty component. This structural difference is critical and has great economic and political significance. As a result, insights from the federal story must be considered with caution when trying to understand state-level income taxation.

The main events in the adoption of the twentieth-century federal income tax are well-covered in the historiography. In 1894, the Wilson-Gorman tariff legislation was passed with strong support from Democrats and Populists and unanimous opposition from Republicans. The next year the Supreme Court overturned the tax in *Pollock v. Farmers' Loan & Trust Co.*, holding that taxes on rents from real estate, on interest income from personal property, and other income from personal property (such as dividend income) were direct taxes on property. Under the Constitution, Congress could impose direct taxes only if they were levied in proportion to each state's population, a method of apportionment that was inherently incompatible with progressive income taxation.

From 1895 through 1909 several income tax bills and constitutional amendments were introduced by southern and western legislators, but these efforts were defeated by the "old guard" Republicans who controlled the Senate and House. The old guard was personified by the Republican leader of the Senate during the 1890s and 1900s, Nelson W. Aldrich, a master of tax legislation with strong ties to industrial, railroad, and banking interests.

By the end of the 1900s, however, the old guard's firm control over the Republican party had been considerably weakened as a growing number of Republican insurgents, such

as Robert M. La Follette from Wisconsin, joined forces with Democratic legislators to fight for tariff reduction. They tried to pass a 2 percent corporate and individual income tax on incomes over $5000; however, the Republican leadership managed to limit that legislation to a corporate excise tax. In the 1909 corporation tax legislation, every corporation and similar associations organized for profit and having capital stock represented by shares were subject to a special excise of 1 percent of net income over $5000. Prior to 1909, corporate profits had been entirely free from federal taxation, except during the Civil War.

The Republican leadership had allowed this corporate excise tax to go forward because they saw it as a prudent conciliation to popular demands favoring income taxation. The other conciliation came in 1913 when the leadership, hoping to mend an increasingly fractured party, allowed a constitutional amendment authorizing income taxation to go forward. The required number of states ratified the amendment in the same year, and in October Congress passed the Underwood Tariff legislation, which lowered tariff rates and made up for the lost revenue through an income tax. The new corporate income tax replaced the 1909 corporate excise tax. It imposed a 1 percent tax on net corporate incomes, without any exemptions. For the individual income tax, the exemptions were fairly high, which meant that less than 1 percent of the population would end up paying the new tax. It had a progressive rate structure ranging from 1 percent through 7 percent.[32]

The political success of the federal income tax is thus tied closely to changing policy preferences regarding tariffs. Politicians from more rural regions had long favored income taxes as an alternative to high tariffs. What changed was the view of the insurgent or progressive wing of the Republican party, and that change was tied to the increasingly international orientation of many of the country's largest enterprises. This

[32] See Ratner 1942, p. 271-300; Witte 1985, Chapter 4; King 1993, p. 89-108; Keller 1990, p. 193-99; and Stanley 1993, Chapters 4-5. Also see Baack and Ray 1985 and National Industrial Conference Board 1930b, p. 2-3.

economic shift influenced the moderate wings of both parties toward positions more favorable to tariff reduction. The income tax offered a way both to reduce reliance on tariff revenue and to finance the expansion of American power abroad in support of such trade.[33]

Quantitative overview

Before turning to the political details of the first and most influential of the twentieth-century state income tax adoptions — that of Wisconsin in 1911 — it is helpful to have a broader picture of the adoption and use of state income taxes during the 1910s and 1920s. Several important details from such an overview are tellingly absent or underplayed in the most prominent historiography on the topic.

Income tax adoptions and usage

From 1911 through 1927, 15 states adopted either individual or corporate income taxes, typically both. A listing of such tax adoptions, along with information on income tax utilization by these states, is provided in Table 15.[34] Note that income tax adoptions starting in 1929 will be discussed in Chapter 9 dealing with the wave of sales and income tax adoptions during the Great Depression.

An important aspect of these tax adoptions — a simple point not usually emphasized in the historiography — is that roughly half of them were in southern states. States like Wisconsin and New York have received the bulk of the attention by historians, probably owing to the fact that the period's leading fiscal experts (Seligman, Adams, Bullock, Plehn, and so forth) worked most closely with states outside the South. The writing of such experts have had a large influence on the course of fiscal historiography. The most

[33] King 1993, p. 100.
[34] Also see National Industrial Conference Board 1930c, p. 1.

extensive fiscal history of state and local fiscal affairs during this period comes from Yearley, who explicitly confines his attention to the North. In short, we know very little about fiscal politics in the South during this crucial period. Aside from assembling and analyzing the comparative data described in Chapter 3, this study make no other significant contributions toward addressing this defect.

Conceivably, a possible explanation for the inattention to income taxation in the South rests on the key distinction between tax adoption and tax utilization. As we know from the history of income taxation during the nineteenth century, a tax can be on the books without being used appreciably.

To assess the degree to which state governments exploited income taxation, one needs to consider three dimensions: *effort*, or the extent to which a state fully taps an economic resource under its jurisdiction (income in this case); *reliance*, or the proportion that income taxation represents of the state's total revenue or, more commonly, total tax revenue; and *allocation*, or the proportion of a state-administered income tax that is available for state spending, as opposed to being allocated to local governments. Aside from fiscal classification issues that will be discussed shortly, the data collected as part of this dissertation are well-suited to measuring income tax reliance. The other two dimensions are less readily available. Income tax effort is a particular challenge because we lack long-running historical times series on state-level income (or gross domestic product). However, a reasonable workaround exists. Federal income tax policy provides a common baseline by which to gauge the revenue outcomes in particular states. Thus, a proxy for state income tax effort can be obtained by expressing state income tax revenue as a proportion of the federal income tax revenue collected within a given state.

For the ten-year period from 1918 through 1927 we can summarize the utilization of state income taxes in the aggregate — that is, taking the entire state government sector

as single unit — as follows: states income taxes represented about one-sixth as much revenue as the federal income tax in the applicable states; income tax revenues were split evenly between state and local government; and the portion that went to state governments represented about one-fifth of all tax revenue in those states (a bit less than 90 percent as much as the general property tax revenue available for state government).[35] Note, however, that aggregate statistics on income taxation during this period require an important qualification: because of the size of its economy, New York accounted for roughly 60 percent of all state income tax revenue during the 1910s and 1920s; similarly, just two states (New York and Massachusetts) represented 75 percent. In other words, aggregate revenue statistics tell us the most about the large (high income) states.[36]

As of 1927, the endpoint of the period just summarized, 6 of the 15 states with income taxes had negligible amounts of income tax revenues available for spending at the state level, which meant either that the tax was not exploited or that the revenues were allocated almost entirely to local governments. Examples of both types can be seen in Table 15: Oklahoma in the former category (both low reliance and low effort relative to the federal income tax), and states like Massachusetts and New Hampshire in the latter category (low tax reliance but moderate-to-high effort).

A few other measures are useful in providing a general picture of the usage of income taxation during this period. According to figures assembled by the National Industrial Conference Board for 1927, income tax revenue per capita ranged from a low of $0.15 in Oklahoma to a high of $8.70 in New York, with the average state collecting $2.43 per capita. Income tax revenues as a share of total state and local revenues ranges from a low of 0.4 percent to a high of 12 percent (the latter in Wisconsin). Income tax revenues as a share of state tax revenue ranges from a low of 1.9 percent to a high of 25 percent (the latter in North Carolina). On both tax reliance measures, four states had higher

[35] Bigham 1929, p. 230.
[36] National Industrial Conference Board 1930c, p. 154.

values than New York.[37] In other words, even though New York was described by Seligman — and by historians who adopted his interpretation — as representing a culmination of fiscal reform, and even though New York accounted for 60 percent of the state income taxes collected during the period, the state did not exploit income taxation as heavily as it might have. This point is demonstrated even more directly by the ratios of state-to-federal income tax revenues: on this measure, New York ranked lower than 10 other states.

Table 16 provides information on income taxation reliance relative to property tax reliance. States that adopted income taxes during this period did indeed achieve lower levels of property tax reliance, exactly as the fiscal reformers hoped: the average income tax adopter had a property tax reliance of 24 percent in 1927, which was 16 percentage points lower than the value for the average state without income taxes. To some extent, this is an expected outcome, given the way that tax reliance is defined: as the reliance for one tax increases, the reliance for other taxes necessarily falls. However, this finding does confirm that income tax adoptions were associated with lower property taxation in particular, as opposed to leading to some other shift in the revenue structure.

Other noteworthy findings in Table 16 return us to the South and its relative absence from the historiography. Not only did the South represent an important region for the adoption of income tax laws; its usage of income taxation was hardly nominal. Average income tax reliance by southern states was higher than income tax reliance by states from other regions. Relative to federal income taxes, however, states outside the South exploited the tax more heavily. The explanation for these findings that seemingly point in different directions (higher income tax reliance for the South but lower effort) is found by considering allocation: state governments outside the South tapped income somewhat more heavily than Southern states but diverted a larger share of the revenue

[37] National Industrial Conference Board 1930c, p. 155-6.

to local governments. The broader conclusion is that South did indeed use the income taxes that it adopted during this period — which makes our collective ignorance about the politics and administrative details of income taxation in the South all the more inexcusable.

Income and corporate taxation: problems and the intergovernmental context

Two other statistical generalizations are crucial for the understanding of income taxation during the early twentieth century. Relative to income taxation as practiced during the second half of the century, early income taxes were elite and corporate. The former — the extent to which early income taxes were confined exclusively to the affluent — will be discussed in greater detail when considering the specific case of Wisconsin. Regarding the latter, as noted in Chapter 3, a long-term trend within income taxation has been a shift away from corporate taxes and toward individual taxes. By the end of the century, individual income taxes would dominate corporate taxes. During the 1910s and 1920s, the picture was very different. For example, in 1928 among states that used both types of taxes, the percentage of income taxes coming from corporate taxes ranged from a low of 25 percent (in Massachusetts) to a high of 82 percent (South Carolina). The value for the average state was 53 percent (or 42 percent for the entire state sector as an aggregate).[38]

In connection with this issue, it should be emphasized that the study of early income taxation is hindered by the older fiscal classification framework used by the Census of Governments (COG) during this period. Because income taxation was relatively uncommon, it was not a primary organizing concept in the COG classification scheme: in some years, income tax data were not collected at all; in several years, it appeared in special subsidiary tables, not in the main data tables, which were framed primary around property taxation and its sub-components; almost never was the data collected

[38] National Industrial Conference Board 1930c, p. 159.

in a way that would allow for an easy separation between individual and corporate income taxes; and worst of all, corporate taxation was often buried in other categories, typically special property taxes or business license taxes. For example, consider New York in 1927. Table 17 compares the state's tax revenue as reported from two data source: COG, which provides the basis for the data assembled in this study; and state-level reports assembled by Robert M. Haig, a prominent fiscal expert from the period. Both sources report roughly the same amounts for total tax revenue, as well as for general property taxes, auto-related licensing, inheritance taxes, and individual income taxes. However, the COG data lumps the remaining tax revenue ($88 million, representing about half of total tax revenue) into three catch-all categories: special property taxes, other licenses, and other taxes. The data from the state reports tell us that $39 million of that amount took the form of corporate income taxes. Examples like this can be found for other states as well. In short, the COG data tend to underreport income taxation, primarily because corporate income taxes are reported in other categories.

The corporate nature of early income taxes is found not only in the relative distribution between corporate and individual taxes, but also in the general affinity between income taxation and corporate (or special property) taxation during this period — an affinity revealed, for example, in the COG classifications just discussed. In concept, implementation, and impact, early income taxes and corporate property taxes were closely related. In essence, corporate taxes, income taxes, and the general property tax (particularly its personalty component) were the alternatives from which state governments chose during this period. On one level, the choice was a general one: which instrument would the state rely upon for its revenue? And sometimes the choice was industry specific: corporate property taxes and corporate income taxes were alternatives, and particular industries would be subjected to one or the other.

Because the taxes being chosen were administrated by different government levels, the adoption of income taxation during this period involved the type of intergovernmental negotiation described in the previous chapter's discussion of corporate property taxation. A typical legislative package involved a new state-administered income tax, elimination of portions of the general property tax (for example, the state's share of the property tax and all of the personalty tax), and then a transfer of revenue from the income tax to localities to compensate them for the lost revenue. Another common aspect of this sort of intergovernmental arrangement was that localities would accept some measure of state supervision in fiscal administration — including state supervision of local property taxation — in return for revenue sharing from the new income taxes. In some cases, income tax revenues were apportioned to localities in proportion to their real estate assessments, a mechanism intended to incentivize localities to improve their assessment practices.[39]

Arrangements like this reversed the nineteenth century pattern, under which local government administered the tax that was shared between state and local governments. In the twentieth century, the pattern would increasingly be one in which the new taxes were administered at the state level and then distributed down the governmental hierarchy, and in which even the local taxes fell under greater supervision from the center. Notice also that the sharing of income tax revenues reversed the trend toward separation of sources, taking the state-local sector back to a situation in which multiple government levels relied on a common tax — in this case, however, a tax administered by the state rather than localities.

To some extent, however, the mandated sharing of income taxes with local governments was a transitional device in the early history of income taxes. The trend in the 1920s and beyond was for state governments to retain full control of income tax proceeds. The experience in Wisconsin, for example, illustrated that rigid revenue

[39] For example, see Seligman 1919, p. 527-33.

distribution formulas led to perverse outcomes, in which particular rural districts with large manufacturing operations collected income tax revenues far in excess of their fiscal needs.[40] Even though states lessened their use of strict formulas for sharing revenue with local governments, the earmarking of income tax revenues remained common — earmarking, that is, for specific programmatic areas, such as schools, old-age pension funds, or special debt funds.[41]

Income taxation and government growth

In the historiography on early income taxation, the quantitative trend receiving the heaviest emphasis deals not with income tax effort, reliance, or allocation but instead with the growth of government: the adoption of income taxes is said to be associated with fiscal expansiveness. Unlike many hypotheses in historical interpretation, this one is narrowly bounded and, at least in the abstract, eminently testable. Yet the alleged association has been rarely examined in anything other than a loose, anecdotal manner.[42]

Given the limitations of the COG fiscal classifications noted above, settling this question definitively is not easy for the early twentieth century. Nonetheless, there is evidence suggesting that we ought to be skeptical of the claim that the adoption of income taxes led directly to an expansion of spending beyond that observed in states that lacked the new tax. For example, recall Table 11, which was discussed in a similar context in the previous chapter. During the 1920s, states with higher general property tax reliance actually had relatively larger state governments — measured relative to both population and income — than states with lower property tax reliance. Although this association is not particularly strong in a statistical sense, it is noteworthy because it points in the

[40] Harley L. Lutz and Wright 1920, p. 90.
[41] Roy G. Blakey and Johnson 1942, p. 114a-114d.
[42] Teaford 2002; Higgens-Evenson 2003; Mehrotra 2003; Mehrotra 2008. The absence of even basic statistical testing is particularly striking — and represents a missed opportunity — in the work of Higgens-Evenson, which included a data-collection effort.

wrong direction. On average, states that had moved away from general property taxation — and thus toward other taxes — were adopting a somewhat more constrained fiscal posture relative to the revenue effort of other states. Another way to summarize the result is to observe that many states were able to expand their government activities — keeping up with, or even slightly surpassing, states using different fiscal instruments — while still relying heavily on the old device of general property taxation. Quite possibly, these states were using a modernized version of property taxation, deploying some of the centralizing administrative changes noted in this and the previous chapter. But it was property taxation nonetheless.

A more direct test of the association between income taxation and government growth can be made simply by comparing states that used income taxation with states that did not. As shown in Table 18, income tax users — defined as states with income tax reliance of at least 1 percent — were not statistically different than non-users in terms of basic measures of government size. State government revenue relative to state income is slightly higher for income tax users, and state revenue per capita is slightly lower. In neither case is the difference compelling in a statistical sense.

Details from particular states reinforce the skepticism concerning the assumption that the adoption of an income tax necessarily led in a direct fashion to fiscal expansiveness. Delaware, for example, adopted an income tax in 1917; however, more extensive use of the new fiscal device did not occur until 1921, when the tax was modified both to use a progressive, and thus higher, rate structure, and to include a 3 percent tax on corporate income. Incidentally, this pattern of adopting an initial, somewhat ineffective income tax and then following up a few years later with a revised tax was fairly common among the income tax adopters during this period. The revision and expansion of income taxation in Delaware was driven in large part by successful political lobbying from pro-education groups within the state, led by Pierre du Pont. In addition to higher rates and a corporate income tax, the legislative changes in 1921 involved the creation of a State

School Tax Department to administer the income tax. At one point in the story (in 1925), Du Pont even put forth a proposal for an income tax without exemptions — in other words, a mass income tax rather than an income tax that only touched the affluent. The point here is to emphasize that government expansiveness did not come directly from a tax device but from political lobbying for higher spending. Also noteworthy in the case of Delaware is the growth trajectory of income taxation. The mid-1920s would turn out to be a high point in the state's income tax effort. As a percentage of federal income tax revenues, the state's income tax collections went as follows: 8 percent in 1920; 41 percent in 1926; 20 percent in 1930; and 6 percent in 1938. In other words, Delaware's moderately heavy use of the income tax during this period was short-lived, essentially confined to the 1920s. As soon as the state found a politically attractive alternative, income taxation was mostly abandoned. Delaware ended up following New Jersey's charter-mongering strategy, offering favorable incorporation laws in exchange for corporate tax revenue — yet another variant of special property taxation.[43] Rather than being a driver of government growth, the income tax in Delaware was one option in the typical choice that states made among personalty taxes, corporate taxes, and income taxes.

Framed in that way — income taxation as one of several viable paths to fund an expanding state government sector during the early twentieth century — the hypothesis that income taxation as such represented a crucial aspect underpinning government growth in this period seems less plausible on its face.

This common narrative about the course of government growth can be traced back to Seligman's description of the New York income tax of 1919, which he characterized as a culmination of early twentieth-century fiscal reform efforts, one likely to become a model for other states. Fiscal historians following in Seligman's footsteps, and relying on his account, continued the narrative: Yearley's chapter on income taxation during this

[43] Rebecca Jean Brownlee 1944, p. 9-20, 86; Grandy 1989; and Grandy 1993.

period is titled "The Breakthrough"; Teaford described the income tax as the major fiscal reform of the period, one capable of funding the modern state both fairly and generously; Mehrotra describes the early income tax as "laying the foundation for the subsequent growth of the public sector"; and Higgens-Evenson — who, to his credit, never loses sight of corporate taxes and gasoline taxes — frames the discussion of income taxation in a narrative that contrasts the "progressive" states that were expanding theirs fiscs by adopting new forms of taxation and the "Jeffersonian republics" that clung to the older fiscal instrument (property taxation) and thus slower rates of government growth.

In the translation from Seligman's original interpretation of early state income taxation to modern fiscal historiography, something critical has been lost. New York's income tax adoption was a crucial event in the era's fiscal history, and its income tax did dominate the field of state-level income taxation during this period by virtue of the magnitude of the state's economy. However, as discussed above, in terms of reliance and effort, New York's income tax was not extraordinary relative to other states that were using the tax. Similarly, New York's rate structure was not particularly progressive. Seligman noted this fact when comparing the state's income tax to that of Wisconsin. This lack of progression in the rate structure was intentional: Seligman, the intellectual architect of the New York income tax, explicitly disavowed revenue expansiveness, saying that higher top rates would yield more revenue than was needed and would "conduce to extravagance."[44]

To be sure, fiscal reformers like Seligman were motivated by the goal of yielding revenues sufficient for the purposes of modern, well-run government. However, their vision for the appropriate size of the state was surely not the same as that imagined by twenty-first-century fiscal historians writing with one eye on the period since World War II. To describe early income taxation as a culmination because it somehow sprung open

[44] Seligman 1919, p. 530.

the locked-down nineteenth-century fisc is to impose too modern an understanding of income taxation upon the intentions of the fiscal reformers of a very different era. Seligman told us what their primary goal was, but we have not listened closely enough: it was not to expand government; it was to dismantle an old tax.

Making sense of Wisconsin

Wisconsin offers the most thoroughly documented case study for understanding early twentieth-century income taxation. By demonstrating that state-level income taxation could yield significant revenue without too much administrative or political pain, Wisconsin offered an example that several other states followed. As a result, Wisconsin's income tax attracted a great deal of analytical attention by fiscal experts during the 1910s and 1920, and this body of material then supported subsequent work by fiscal historians. The discussion here will use the Wisconsin case as a means to flesh out the arguments developed at a more general level in the foregoing discussion. Where applicable, examples from other states will be woven in.

Overview of Brownlee's argument

The starting point for modern historiography on the Wisconsin income tax is Brownlee's *Progressivism and Economic Growth*, a study that has had the effect of directing subsequent work about the topic toward a particular set of questions.[45] As his title indicates, Brownlee's book was as much an economic history as a political history. One of his primary concerns was to explain the course of Wisconsin's economic development, particularly its slower industrialization relative to comparable states. This question was closely related to the interpretation of income tax politics that Brownlee developed — an interpretation quite critical of the Progressive fiscal reformers.

[45] W. Elliot Brownlee 1974. Also see W. Elliot Brownlee 1976, which focuses on the politics of the income tax and sharpens the narrative of the book.

Brownlee's is a classic case study in interest group politics, in which fiscal outcomes flow naturally from the relative political-economic strength of groups or sectors. The Wisconsin income tax was not about "reform" in the sense of improving policy to achieve a better fit with changed socioeconomic conditions; rather, it was designed mainly to shift tax burdens: "Although cast in terms of the enlightened search for economic democracy within a capitalist system, the Wisconsin reform movement was an expression of the shortsighted self-interest of a politically powerful sector of the economy."[46]

Although Brownlee's skepticism about his subjects is certainly a welcome corrective in a field too willing to accept the Progressive era fiscal narrative without qualification, the orientation of his skepticism laid out a terrain for the debate in which the most natural response of his critics was to revert to straightforward defenses of the good intentions of the reformers. As a result, the debate tends to miss more than it reveals.[47]

Brownlee's interpretation of the Wisconsin income tax can be summarized readily. The analysis begins with economic structure, taken to include both the relative balance between major sectors (agriculture, manufacturing, finance, and so forth) and the relative balance within sectors (for example, small-scale versus large-scale manufacturing). Relative to comparable states, Wisconsin not only had a smaller manufacturing sector; it also had a manufacturing sector weighted toward smaller enterprises. In addition, the state's economy had a strong and emerging commercial agricultural sector that was becoming increasingly specialized, with its eyes on growing national and urban demand (the primary example is the dairy industry). In Brownlee's argument, economic structure determines political structure: in short, manufacturing was a particularly weak political interest group in Wisconsin. This economically-based

[46] W. Elliot Brownlee 1974, p. 98; also see the introductory and concluding sections in W. Elliot Brownlee 1976.
[47] For the main responses to Brownlee, see John O. Stark 1987; John O. Stark 1992; Mehrotra 2008.

liability was reinforced by apportionment rules that gave rural areas outsized influence in the state legislature. The relative weakness of manufacturers in Wisconsin's political-economy naturally led to weakness in the arena of fiscal politics, where other economic groups ended up playing a larger role in the shaping of public policy.

In the case at hand, agricultural interests were able to use the tax system to advance both negative and positive redistributive goals. The negative goal was to shift tax burdens away from agriculture, a shift that other groups (such as banking, railroads, and utilities) were able to blunt more effectively than manufacturing. The positive goal — which emerged later in the story as the revenue potential of the tax became evident — was to use the resources yielded by the new tax to fund state services that would assist Wisconsin's increasingly specialized farmers in their efforts to compete in the commercial market of an urban-industrial society. Brownlee summarizes the argument in strong terms:

> The relatively minor role of manufacturers, particularly large-scale producers, in the economic structure of the state allowed other economic groups to play a relatively greater role in shaping the character of the expanding public sector. Most significant among these competing groups were the agricultural interests, with a set of "class grievances" that urged the redistribution of income from manufacturers to farmers and support for the farmers' competitive position in an industrial marketplace. This pressure produced a blatant effort to use the tax system to redistribute income and to create an agricultural service-state financed in large part by manufacturers.[48]

Brownlee contends that the outcome in Wisconsin was distinctive in how badly the manufacturing sector fared. Among comparable industrial states, Wisconsin's turn to the regulation and taxation of manufacturers was the most pronounced. The income tax legislation fell hard on manufacturing corporations, especially because manufacturing property remained subject to local property taxation — a valuable exemption that other

[48] W. Elliot Brownlee 1974, p. 44.

industries received. As noted already, the more common outcome during this period was for an industry to be subjected to a new state-administered tax in exchange from some degree of relief from the general property tax. That is what happened for most industries in other states as various corporate and income taxes were adopted. It is also what happened for the largest corporate sector in Wisconsin, the railroads. Among the industrial states, the other early income tax adopters (for example, Connecticut, Massachusetts, and New York) treated corporate and individual income differently, providing the corporate sector with lower rates and various deductions or exemptions, most notably from portions of the local general property tax. The fiscal outcome in Wisconsin also deviated from more general patterns in the Northeast and Midwest, which had been to hit local manufacturing with relatively minimal state taxation. Even as urban expenditure needs grew — and taxation grew with them — boosterism remained an influence, keeping the overall fiscal position of manufacturing relatively favorable.[49]

In addition to being weak within Wisconsin's political-economic structure, manufacturers suffered from relative political ineptitude. Unlike railroads and public utilities — which were generally larger enterprises and thus had more resources and incentives for sophisticated political lobbying — Wisconsin manufacturers tended to be more local, which may have limited both their political vision and, more specifically, their political influence at the state level. Relative to the manufacturing sector, railroads and utilities had a longer track record of working with and within the state government to navigate both fiscal and regulatory policy. As a result, they accepted the necessity of "working within the framework of the communal order defined by Progressives," which allowed them to weather those strains within the Progressive fiscal reform movement that aimed for greater taxation of corporate assets.[50]

[49] W. Elliot Brownlee 1974, p. 41-3; W. Elliot Brownlee 1976, p. 301, 323.
[50] W. Elliot Brownlee 1974, p. 97; W. Elliot Brownlee 1976, p. 302.

Although not all of Brownlee's explanation for the distinctness of the Wisconsin income tax with respect to manufacturing is compelling, it does seem plausible that the relative political clout of the manufacturing sector could vary across states. In his comparative study of fiscal politics in several states during this period, for example, Higgens-Evenson mentions that manufacturing tended to be more influential in state politics in the industrial Northeast, while railroads and utilities tended to be more powerful in the mixed economies of the Midwest and Far West.[51] This observation seems to be borne out in a case discussed in considerable detail in the previous chapter — that of California, which had a smaller manufacturing sector relative to other industrial states and which had a politically strong railroad sector.[52]

Brownlee's critics and the problem with the debate

Other historians, notably Mehrotra and Stark, have disputed Brownlee's emphasis on the redistributive aspects of the Wisconsin income tax and instead have emphasized genuine reform goals. According to such critics, rather than being a narrowly ideological or self-interested measure designed to help farmers at the expense of the manufacturing sector, the tax should be viewed primarily as a reform-minded solution to the well-understood problems associated with an obsolete system of personalty taxation. Stark, for example, concludes that the income tax was "designed to, and in fact did, foster equity more than to further the interests of any single group."[53]

Brownlee's critics do offer some evidence for their counter-interpretation. For example, Stark argues that the extensive legislative work on the income tax — both by politicians and by experts enlisted to help with the drafting of the law — suggests a fiscal reform movement concerned more about getting the details right than punishing "the interests." Also noteworthy is that the legislative voting on the income tax failed to

[51] Higgens-Evenson 2003, p. 109.
[52] W. Elliot Brownlee 1974, p. 43, 123. Also see Laichas 1999.
[53] John O. Stark 1987, p. 27; Mehrotra 2008.

display a clear pattern with respect to the occupations of legislators: in the Assembly vote, for example, manufacturers were divided 3-2, and the farmers were divided 15-12. Whereas Stark does see a theme of class or sector conflict in the earlier development of the tax — for example, Nils Haugen's pro-income-tax dissent in a 1903 tax commission report — he is not convinced that the income tax of 1911 was driven mainly by a goal to help certain sectors at the expense of others.

Instead of narrow-gauged conflict, Mehrotra and Stark see the key influence of reform-minded fiscal experts like Charles McCarthy, an employee at the Wisconsin Legislative Reference Library, and Delos O. Kinsman, a professor whose doctoral dissertation had studied income taxation. Not only had experts like McCarthy and Kinsman been developing, over the previous few decades, a general theoretical framework amendable to income taxation, but they were instrumental in crafting the details of the income tax legislation that Wisconsin and other states ultimately adopted.[54] As one example, whereas Nils Haugen had deployed a fiscal rhetoric that did indeed emphasize sector conflict and redistributive goals, his income tax never succeeded legislatively; moreover, it envisioned a relatively weak administrative structure that had already proved unsuccessful for personalty taxation. McCarthy and Kinsman's crucial contribution — just like that made by similar experts, such as Plehn in California or Seligman in New York — was to insist upon a centralized administrative structure buttressed by related changes that advanced the fiscal machinery beyond its fragile dependence on self-reporting in a local context.

Historians like Stark and Mehrotra are certainly correct that income taxation was designed to solve widely perceived problems in the existing fiscal machinery. It is equally true that income taxation, in order to succeed politically and legally, had to satisfy minimum technical requirements — hence the need for help from fiscal experts who were indeed motivated by technical, administrative, and intellectual concerns that

[54] John O. Stark 1987, p. 17, 30, 34, 40.

cannot be dismissed as narrow expressions of class interest. Also important was the sheer complexity of the topic. Stark argues that in 1911 it would have been difficult to predict with any precision the net effect of the total legislative package on various socioeconomic groups. The combination of a new income tax and multiple changes to the general property tax system made such a calculation very complex. In this light, he does not find compelling an interpretation tightly focused on agriculture-manufacturing conflict.[55]

Ultimately, the debate between Brownlee and his critics leaves us with a choice that is not particularly revealing. On one side, we have an interpretation that leans so strongly on the pro-agriculture and anti-manufacturing themes that it cannot readily accommodate many key details of the political history or the crucial role of experts in the formation of the new fiscal policy. On the other side, we have a largely reactive interpretation that insists so strongly on the genuineness of the reformers' motives that it cannot see past the boundaries of the problem as defined by the Progressive era fiscal experts.

Fortunately, Brownlee's political narrative is a rich source of information and contains enough raw material to move beyond both the unnecessarily narrow frame that Brownlee's interpretation imposes on the story and the apolitical reading of events offered by his critics.

Brownlee situates his political history of the Wisconsin income tax within the larger history of Wisconsin Progressivism. As of the early 1970s, when Brownlee was writing, Wisconsin Progressives had been characterized in various ways: descendents of Populists intent on redistributing resources toward farmers; a movement that tried to create government programs and regulations to aid farmers as small businessmen; a movement that — either consciously or indirectly because of its economic, social, and

[55] John O. Stark 1987, p. 42 and elsewhere.

political biases — advanced policies that worked on behalf of large corporate interests; or a diverse set of reformers who hoped to rationalize and improve the efficiency of governance and policy in an urban-industrial society.[56]

Brownlee hoped to use fiscal history as a way gain some leverage on the historiographic problem of how to characterize the Progressives. As Daniel Rodgers and others have argued, however, specifying a typical Progressive profile, a coherent Progressive political agenda, or coherent Progressive ethos may not be a fruitful way to attack the problem.[57]

The core problem with Brownlee's interpretation is that a complex political history is unnecessarily framed in a rigid interpretation focused on a single axis of interest group conflict — namely that between rural interests and urban or industrial interests. The rich details in his political history provide support, to varying degrees, for all four of the interpretations of Wisconsin Progressivism that Brownlee identifies at the start of his study. Rather than embracing this complexity, Brownlee surrounds his historical narrative with a narrowing interpretive overlay.

One goal of the ensuing discussion will be to rescue Brownlee from himself — in effect, to place his political narrative within a more flexible approach to making sense of the Progressive era. Instead of choosing among interpretations that try to define the essence of Wisconsin Progressivism — and, similarly, to identify the most critical axis of conflict — the strategy here builds upon the discussion from the previous chapter. As Rodgers argues, the Progressive era was one characterized by the rise of weak-party, interest-group politics. Such groups drew upon a common language that was flexible enough to be deployed to advance a wide array of goals, some of them conflicting. And in the arena of interest group politics, it is the organized who tend to fare the best.

[56] W. Elliot Brownlee 1976, p. 299-300.
[57] Rodgers 1982.

The core strength of Brownlee's approach is its emphasis on interest group conflict. In downplaying such conflict, his critics abandon what is arguably the most useful analytical tool in making sense of fiscal politics. Rather than narrowing the scope of this conflict to the pro-agriculture, anti-manufacturing themes advanced by Brownlee, however, the approach here will be to emphasize interest group conflict more broadly. The point is not to diminish the importance of the conflicts emphasized by Brownlee; to the contrary, the difference between urban and rural areas provides a fundamental structural difference that has animated a wide variety of economic, political, and cultural conflicts. Rather, the problem is that this single axis is too confining to make sense of the story. The desire on the part of agricultural interests to redistribute tax burdens, by itself, is typically not sufficient to bring about the implementation of complex tax policy. In particular, fiscal policy making is highly influenced by experts, who bring not only their genuine academic and reformist principles (as emphasized by Stark and Mehrotra) but also their middle-class and affluent biases (as detailed by Yearley). More to the point here, fiscal policy making is also heavily influenced by business interest groups with both the political connections and the incentives to devote substantial resources to the area. In some sense, Brownlee's emphasis on the rural orientation of Wisconsin's income tax politics diverts attention away from such business groups that had the biggest influence on the precise shape of fiscal policy during this period.

Political narrative: an invigorated general property tax and its discontents

The backdrop for the income tax movement in Wisconsin was the evolution of party strategy during late nineteenth century. The Democratic Party had made gains in the state in the early 1890s by capitalizing on ethnic and religious affiliations — for example, opposing a Republican-sponsored law requiring public schools to teach certain subjects only in English. Republicans responded to such Democratic successes by emphasizing economic interests in electoral politics. Specifically, politicians like Albert Hall, William

Hoard, Nils Haugen, and Robert La Follette deployed a rhetoric and advanced a set of policy proposals to appeal to the economic interests of farmers. The rhetoric included complaints about excessive general property tax burdens and attacks on corporate tax dodgers. Such economic appeals were especially effective during the economic depression of the 1890s, when farmers were caught between high fixed costs and low prices.[58]

These political developments coincided with the increasingly intense search, occurring in Wisconsin and many other states, for replacements to the general property tax. Brownlee argues that Wisconsin's dissatisfaction with the general property tax had a noteworthy rural orientation relative to that of other states; however, this argument is not particularly compelling. Rhetoric about the plight of real property owners, especially farmers, and about tax avoidance by both corporations and intangible property owners was commonplace during this period. It can be found, for example, in the reports of one tax commission after another from the 1880s through the 1930s. And, as emphasized by Stark and Mehrotra, urban-minded fiscal reformers contributed to the mounting critique of the general property tax in Wisconsin just as they did in other states. At the turn of the century, the critique of the general property tax had become a flexible political language that various interest groups and partisans were able to deploy to advance their causes. The use of such rhetoric tells us very little about the orientation of the speaker, because relief from the burden of the general property tax served the interests of all kinds of property owners, small and large, rural and urban.

The legislative effort to implement an income tax in Wisconsin began in 1903; however, it did not proceed as rapidly as might have been expected, with the ultimate adoption not occurring until 1911. Here we return to a specific instance of the general question posed earlier. Why did state-level income taxation not win the day more readily? The income tax was widely viewed, both nationally and in Wisconsin, as a pro-farmer tax.

[58] For Brownlee's political narrative, see W. Elliot Brownlee 1974, Chapter 3, and W. Elliot Brownlee 1976. See W. Elliot Brownlee 1976, p. 303 for the details on party strategy in the 1890s.

Since state legislatures had apportionment rules giving significant advantages to rural areas — a factor emphasized in Brownlee's interpretation — one might have expected agricultural interests to have implemented income taxation sooner and more widely.

The factors that slowed the movement toward income taxation in Wisconsin were the same as those noted in the general discussion above. Among government officials and fiscal experts there were strong doubts about the administrative difficulties and thus the revenue potential of state income taxation. Perhaps more important, however, was the still-strong attachment to other types of tax reform within the general property tax framework.[59] As tentative movements toward income taxation were made in Wisconsin during the early 1900s, the two other main lines of fiscal reform were both directed at common targets of rural frustration: railroads and lenders. In each case, the approach was to improve the effectiveness of the general property tax in tapping the assets of such business sectors: the operative property of railroads (tangible, non-realty assets, such as locomotives and rail cars) and the intangible property of lenders ("credits" as they were called, the most prominent example being mortgages).[60]

Railroads were an influential interest group in Wisconsin politics, and the role they played in fiscal reform during this period has several suggestive parallels with the developments in California, as discussed in the previous chapter. In particular, railroads played a key role in engineering a more centralized fiscal apparatus that was then inherited by a set of Progressive politicians who used a pro-agriculture, occasionally anti-corporate rhetoric even as they pursued fiscal reforms that ultimately served railroad interests quite effectively.

Following the now familiar pattern, Wisconsin had exempted the operative property of railroads from the general property tax in 1868; instead, the industry paid a state-

[59] W. Elliot Brownlee 1976, p. 304.
[60] W. Elliot Brownlee 1976, p. 305.

administered gross receipts tax.[61] Such railroad taxes were a prominent revenue source in the late nineteenth century, representing 40 to 50 percent state tax revenue in 1890 and 1902, for example.[62] During the economic depression of the 1890s, such revenue declined substantially, placing increased pressure on the state's dependency on the general property tax. Moreover, because the exemption from the general property tax applied only to *operative property*, the diverse realty holdings of railroad corporations fell under the purview of the many local governments responsible for administering the general property tax throughout the state. Such considerations suggest a dynamic in Wisconsin similar to that described for California. The railroad industry had a substantial interest in the course of state and local fiscal affairs, both because of its prominent position in paying for state government and because of its large land holdings subject to locally administered realty taxation.

As a general rule, railroads tended to favor more centralized fiscal administration over the complexity, variability, and thus unpredictability of local fiscal administration. Centralized fiscal structures were more tractable for railroads, both politically and administratively. The same observations applied to utility corporations. Merchants and manufacturers, by contrast, generally had more concentrated property holdings and thus preferred local fiscal administration, over which they could exert more influence — notably by playing on the built-in incentives for local governments to facilitate business development in their jurisdictions. With their more diverse property holdings, utilities and railroads tended to favor centralized administration, especially since they were likely to have to deal with state-level regulations in any event.[63]

As in California, Wisconsin railroad interests played a prominent role in the emergence of more centralized fiscal administrative structures. A key example was the formation of a state tax commission. Kossuth Kennan, an attorney who was a tax commissioner for

[61] John O. Stark 1992, p. 6 and 9.
[62] Dataset MH20.
[63] W. Elliot Brownlee 1976, p. 309.

the Wisconsin Central Railroad, was a chief proponent and architect of the tax commission. After trying repeatedly during the 1890s to advance this issue in the legislature, Kennan finally succeeded in 1897, winning approval for a temporary tax commission after committing to raise private funds to pay for it (whether such funds would come from the railroad industry is not clear). The commission's charter was to compile information about state taxation, investigate complaints, review existing laws, and write a report with recommendations. Kennan was one of the three commission members. A point of emphasis in their initial report was the commonplace concern about the unfair burden that the general property tax placed on real estate, especially that of poor farmers.[64] An obvious question, however, is whether the real target of the commission's sympathy was in fact the owner of vast amounts of rural and urban lands — railroads.

When Robert La Follette became governor in 1901 — having campaigned on a platform that emphasized the issue of corporate, especially railroad, taxation — he appointed Nils Haugen to the tax commission, replacing Kennan. In addition, the temporary state tax commission was converted into a permanent body. Relative to the other two commissioners, Haugen's voice on the commission was more heavily focused on the kinds of pro-farmer, redistributive issues emphasized by Brownlee. The report issued by the commission in 1903 addressed the two main lines of fiscal reform noted above: the taxation of railroads and the taxation of credits. Regarding the former, the commission's analysis indicated that railroads were paying about one-third less in gross receipts taxes than they would be paying under a well administered general property tax.

The 1903 state tax commission recommended dropping the gross receipts tax on railroads and instead taxing their property assets on ad valorem basis — in other words, under a system like the general property tax. The railroad property to be taxed on an ad valorem basis would thus include the following major components: tangible operative

[64] John O. Stark 1992, p. 9-10.

property; intangible property, as gauged by the value of a railroad's franchise (or stock value); and realty. The last component, of course, had always been under ad valorem taxation.

Even though the political rhetoric for this push to reinvigorate the general property tax had a notable rural tinge and came from pro-farmer political voices like Haugen's, it should be emphasized that urban fiscal reformers in Wisconsin also embraced this line of reform during the 1900s, typically broadening it to cover not just railroads but also public utilities.[65] This broadening is seen in the ultimate legislation adopted in 1903. In addition to putting railroad property fully under ad valorem taxation, the legislature implemented parallel changes bringing various types of utilities under property taxation. The notable examples were telegraph companies, which had formerly been taxed on the basis of wire mileage, and street railways or trolley lines, which had been like the railroads in being subject to gross receipts taxation.[66]

The other line of reform pursued during the 1900s was to improve the taxation of intangibles in an industry of special concern to agricultural interests — lending. The issue at hand was known as the taxation of credits, which were defined in the 1903 tax commission report to represents "a right on the part of the creditor to receive and enforce payment of an obligation due from some other person." Mortgages were the most prominent example of this type of intangible asset. The lenders of agricultural capital can be grouped into two broad classes, institutional and non-institutional. Institutional lenders, most notably banking corporations, were already taxed with reasonable effectiveness under the existing property tax system. Specifically, state and local property taxes were applied to the readily assessed cash value of bank stocks. The intangible assets of non-institutional lenders — for example, real estate businesses and

[65] Even though his larger interpretation is dominated by the rural component, the details in his political narrative support a wider understanding of this line of fiscal reform; see W. Elliot Brownlee 1976, p. 304-5.
[66] John O. Stark 1992, p. 14-15.

prosperous farmers — tended to escape general property taxation. A key reform effort during La Follette's first administration (1901-1902) was to centralize and strengthen local property tax assessment procedures under the supervision of the state tax commission. As a result of these efforts, personalty assessments rose by 40 percent, and the assessed value of "money and credits" doubled.[67]

The effort to tighten up on personalty taxation during La Follette's first administration quickly ran into political resistance, threatening to drive a wedge in the party and undermine the Republican coalition. The non-institutional lenders, who had been important players in the Republican party's successes during the late 1890s, sought property tax relief for their intangible assets. They pursued this relief in the 1903 legislative session, a maneuver that quickly antagonized two other important groups in the party: small farmers, a significant voting block and longtime supporters of beefed up personalty taxation; and bankers, who opposed an exemption of credits if it excluded their assets. A barometer of Republican opinion in an urban, establishment vein can be seen in the editorial positions on this issue offered by two Milwaukee newspapers: the *Free Press* and the *Sentinel*, which represented the Republican party's progressive and stalwart wings, respectively. Both newspapers favored a general exemption of mortgages from property taxation, as opposed to an exemption tailored narrowly to non-institutional lenders. They cited the competitive disadvantage that Milwaukee creditors would face relative to lenders from other areas. This conflict over the taxation of credits threatened party unity and, more concretely, it stalled progress on the primary issue of fiscal concern for Haugen and other Progressives — specifically, further legislative work on the ad valorem taxation of railroads.[68]

Political narrative: income taxation as a political solution

[67] John O. Stark 1992, p. 13; W. Elliot Brownlee 1976, p. 305.
[68] W. Elliot Brownlee 1976, p. 306.

The solution to this political impasse was brokered by Republican Nils Haugen. Haugen's agrarian political leanings are well known; however, he was also a substantial bank investor, and his fiscal politics — in its actual implementation if not always in its progressive public rhetoric — consistently supported the financial industry. This point emerges clearly in the details of Brownlee's political narrative, in spite of his interpretive emphasis on the agrarian tenor of Progressive fiscal reform.

Haugen's solution to the conflict between non-institutional lenders, bankers, and farmers was to propose a general exemption of intangibles from property taxation, along with a state income tax. This proposal succeeded in uniting the Republican party's factions. The fiscal legislation passed in 1903 that moved the state in the direction outlined by Haugen included these major components: an exemption of mortgages (not all credits or all intangibles) from the general property tax, using a method that nominally split the property tax burden between creditor and debtor but that had the practical effect of eliminating the tax on mortgages from the creditor's point of point; a bill to initiate the constitutional amendment process to allow income taxation (this was necessary because the uniformity provisions in the state constitution were thought to preclude progressive income taxation); and further legislative work concerning the ad valorem taxation of the operative property of railroads.[69]

Here we can see the fundamental dynamic at work. Income taxation offered a means to achieve a political solution for the general property tax problem. The problem was not — as the Progressive fiscal reformers and experts insisted and as Brownlee's critics accepted — an inherent economic or administrative dysfunction in general property taxation. The problem was not that the general property tax could not work; *the problem was that it threatened to work too well*. The reality of a better functioning general property tax — notably a tax that would effectively tap intangible wealth — was what concerned so many influential groups within the Progressive Republican coalition.

[69] John O. Stark 1992, p. 13; W. Elliot Brownlee 1976, p. 305.

When Wisconsin tightened up on personalty taxation in during La Follette's first administration, the revenue effect was significant. More generally, the kinds of administrative structures that would allow income taxation to become a productive revenue device in the twentieth century were the same kinds of structures that could have strengthened the taxation of intangible wealth.

The general property tax was not dysfunctional in the abstract; rather, it was a political loser because so many influential groups did not want personalty taxation to succeed: not the banks and the non-institutional lenders; not the real estate interests that were such a strong component of the Progressive wing of the Republican Party; not the public utilities; and certainly not the railroads, which mounted a multi-pronged (though unsuccessful) legal challenge when its operative and intangible assets were placed back under the general property tax in 1903.

Granted, the Progressive wing of the Republican Party did aggressively court the agrarian voting bloc using a populist fiscal rhetoric with frequent references to overtaxed farmers and tax-dodging corporations, and it might even have tried to make good on this rhetoric by tightening up on the taxation of intangibles. But this rural-tinged fiscal reform could not last, because the Progressive political coalition depended on more than the votes of farmers.

Faced with the loss of support from crucial urban, business, and propertied groups, the Progressive fiscal reformers in Wisconsin needed a different strategy. Reform coalitions in other states navigated through this dilemma in various ways, but the broad outlines were the same: some mixture of special corporate taxes and affluent income taxes in exchange for the exemption of intangibles from what was sure to become a more centralized, more rationalized, and thus more effective general property tax. Corporate, propertied, and urban groups may not have been enthusiastic about income taxation,

but they preferred it over the alternative — a more vigorous and truly general property tax.[70]

As for agricultural interests, their first choice was not income taxation; it was an effective general property tax that would tap the vast amounts of corporate, financial, and urban wealth. In this light, Brownlee's emphasis on the rural tenor of the Wisconsin income tax obscures a great deal. It deemphasizes the other half of the income tax coin — namely the partial or complete exemption of intangibles that accompanied every state income tax during this period. That was the side of the coin that most animated the propertied and corporate wings of fiscal Progressivism. Brownlee's agrarian themes also misrepresent income taxation in depicting it, however indirectly, as somehow a progressive tax for the common man — in this case, a tax for farmers. Farmers quite correctly understood that wealth was even more concentrated than income and thus that income taxation — even income taxation focused on affluent earners — did not represent an especially progressive outcome when compared to the alternative of a vigorous general property tax. As Yearley writes:

> State income taxes excited ... little active interest among farmers. Far from being dangerous panaceas, such taxes struck them as beneath contempt, at best a matter of indifference. They seemed just another slick scheme, if not an especially dangerous one, devised by the holders of the new wealth to escape from personal property taxation with its much heavier rates — and it could hardly be denied that personal property taxation potentially was the more dangerous tax.[71]

In order to accept income taxation, farmers had to be guided away from their historic attachment to intangibles taxation. The decades-long campaign from the 1880s through the 1930s by fiscal experts, blue-ribbon tax commissions, and government officials to document the shortcomings of general property taxation and to make the case for its inherent dysfunctionality were certainly one part of that re-education process. In this

[70] W. Elliot Brownlee 1976, p. 306, 311-12.
[71] Yearley 1970, p. 248.

context, it is worth recalling the political observations from Kossuth Kennan that were quoted earlier in this chapter: Kennan was most struck by the fact that ordinary voters in Wisconsin had accepted the fiscal package implied by income taxation — namely the elimination of intangibles taxation. He did not pretend to have a full explanation for this popular acceptance, but he certainly recognized the central issue. Furthermore, he was not distracted by imagining the income tax to be primarily an agrarian fiscal reform or, even worse, a fiscal reform driven by expert considerations devoid of redistributive effects.

Political narrative: accommodating dominant interest groups

From 1903, when the legislature initiated the constitutional amending process, through 1908, there were not significant obstacles blocking the procedural advance of income taxation. The 1903 resolution to put the income tax amendment before the voters passed without only one dissenting vote. Kennan attributed the unanimity to the general belief among politicians that they could safely vote for the measure without much risk of an income tax ever being implemented. Due to a technical defect in the 1903 resolution, the legislature had to pass similar legislation in 1905, again without much opposition or debate. That resolution was passed again by the legislature in 1907, as dictated by the state's constitutional amending process requiring the legislature to pass a proposed amendment with the same wording in two consecutive sessions. In 1908 the amendment was finally put to a popular vote. The outcome was decisive: nearly 70 percent of voters approved the amendment, the strongest margins of support coming from poorer agricultural districts.[72]

Brownlee emphasizes that during the constitutional amending process from 1903 through 1908, the public, experts, and government officials had a rather vague

[72] For details on the legislative chronology see Kennan 1911, p. 65-7, 75; John O. Stark 1987, p. 29-34, 42; John O. Stark 1992, p. 17; Lyons 1915, p. 78-9.

understanding of income taxation, particularly how it would be implemented as *a business tax*. Academic and government experts saw it mainly as a replacement for personalty taxation. More broadly, it tended to be viewed as a type of personal taxation rather than business taxation. As Brownlee writes, "if, in 1908, Haugen and other experts and politicians saw the tax as anything more complicated than a more effective means of taxing 'capitalists,' there is no evidence to that effect." The distributional consequences of the new tax among business sectors was not discussed very much. Similarly, the tax's proponents did not focus politically or intellectually on the manufacturing sector as a particular target for the tax. However, as the legislative process became more concerned with implementation details during the 1908-1911 period — and as the class content of their political appeals increased — Progressive politicians turned their attention to manufacturing corporations. The concurrent debate over the federal income tax — which emphasized themes of corporate wealth redistribution — reinforced this trend in the Wisconsin income tax discussion. Perhaps more to the point, as they developed their income tax legislation, the Progressives accommodated the strongest economic groups — railroads, utilities, insurance companies, and financial institutions — over manufacturing.[73]

The first income tax bill was sponsored by Republican C. A. Ingram and Democrat Paul Husting during the 1909 legislative session. The bill's provisions for centralized administration and graduated rates on both individual and corporate income led to immediate opposition from manufacturers. They complained that the legislation would put them at a competitive disadvantage because it did not grant them property tax relief comparable to what other sectors would receive. Although the failure of this legislation is commonly attributed to its obvious drafting flaws, the bigger question is why such flaws were not corrected.[74] As Brownlee convincingly argues, the main reason for the failure of the 1909 income tax was its deeper weakness: it would have subjected

[73] W. Elliot Brownlee 1976, p. 307.
[74] John O. Stark 1987.

all corporate income to taxation, including that of the railroads and utilities — without compensating adjustments to the existing ad valorem tax system.[75]

The failure of the 1909 income tax caused the fiscal reformers to modify their approach. After conducting hearings throughout the state and getting input from experts, the income tax proponents arrived at a tax with a narrower scope, one more attentive to the influence of the strongest political groups. As initially proposed during the 1911 legislative session, the income tax exempted banks, trust companies, railroads, steam railroads, public utilities, and insurance companies. Notably, Haugen continued his consistent care for the interest of financial firms by proposing the exemptions for insurance companies and banks. Effectively, the income tax proponents arrived at a position that left merchants and manufacturers as the only major corporate sectors subject to the income tax. The stated rationale for this differential treatment was that the exempted sectors paid state-level license fees and ad valorem taxes. While valid, this logic misses the deeper point that the income tax reform package implied a relative shift in the tax burden toward those business sectors that had significant taxable income but that would not benefit greatly from the intangibles exemption.[76]

The success of the income tax legislation in 1911 also derived from the fact that it received more focused attention from fiscal experts. Such help was critical not only in avoiding political opposition stemming from basic drafting flaws but also in working out a viable administrative structure. The bill was sent to Charles McCarthy's Legislative Reference Library for redrafting, with specific direction to strengthen the administrative apparatus. Delos Kinsman, a professor whose dissertation had focused on income taxation, was McCarthy's assistant. The legislation produced by McCarthy and Kinsman included several key changes. As directed, they created a stronger and more centralized administrative structure for the tax: income tax assessment districts were to be larger

[75] W. Elliot Brownlee 1976, p. 308-9.
[76] W. Elliot Brownlee 1976, p. 307-9.

than the typical county, and they were to be supervised by state-appointed, state-paid assessors.

The other crucial change to emerge from McCarthy and Kinsman was an offset for personal property tax payments: a taxpayer's income tax liability could be reduced by the amount already paid in tangible personal property taxes. Brownlee describes this as a change driven mainly by concern for agricultural interests. As McCarthy and Kinsman noted, one effect of the offset would be to eliminate most income tax liability in agricultural districts, because tangible personal property taxes (for example, on livestock) would tend to offset most of the income tax liability for this economic sector. It was generally believed that tangible personal property tax assessments ran higher in agricultural districts: farm animals and equipment, for example, were more readily assessed than the inventories of merchants and manufacturers. Such equity consideration were no doubt a motivating factor; moreover, the offset offered a way to cement rural support for the fiscal package that included the elimination of intangibles taxation, a longtime favorite of rural areas. However, as Brownlee's discussion of the 1920s illustrates, the bulk of the tangible personalty offset was actually claimed by corporations. Thus, to characterize the offset as a distinctly rural aspect of the reform is to restrict its significance too much. Rather than being just a sop to farmers, the offset made the income tax more palatable to any group that still paid personal property taxes.[77]

The offset illustrates how tightly the income tax was bound up with parallel changes to the system of general property taxation, and how the income tax proponents envisioned the tax primarily as a replacement, the intent of which was not so much to increase revenues as to "equalize" them — in other words, to replace part of an old tax and to adjust fiscal burdens.[78] In this light, Brownlee's interest-group approach is on track. Whereas his critics focus on the genuineness and disinterested neutrality of the

[77] W. Elliot Brownlee 1976, p. 309-10, 319.
[78] W. Elliot Brownlee 1976, p. 310.

Progressive reformers, Brownlee correctly sees that in adopting the income tax, the Progressive fiscal reformers were replacing other taxes, and that this shift had distributional consequences. The weakness in Brownlee's account is the narrow emphasis on the agricultural desires for that shift and the corollary lack of attention to the interest groups that were equally attracted to the fiscal shift underway. Such urban, corporate, and propertied groups had just as much veto power within the Progressive fiscal reform coalition as rural interests, and they arguably had more influence over the details of fiscal policy making and implementation.

The income tax legislation redrafted by McCarthy and Kinsman was adopted in 1911, but only after a close, partisan vote in the Senate (15 to 14). The legislation drew strong support from the Republican and Social Democrat parties, and strong opposition from the Democrats, who tended to have a more urban power base. The few Republicans who opposed the tax tended to come from industrial cities on the Illinois border.[79]

Provisions and structural characteristics of the income tax

Another way to escape the confines of the box framed by the debate between Brownlee and his critics is to shift attention to the core provisions and key structural characteristics of the Wisconsin income tax as it was implemented:

- Relative to modern income taxes, it was a corporate tax.
- In its incidence on individuals, it was an elite tax and an urban tax.
- It was framed explicitly as a replacement for intangibles taxation.
- The tax's revenues were shared between state and local governments.
- Perhaps most significantly for its future prospects, it was a revenue success.

[79] John O. Stark 1987, p. 29-34; W. Elliot Brownlee 1976, p. 311.

Income taxes during the first half of the twentieth century were based more heavily on corporate income than modern income taxes have been. Wisconsin's income tax was no exception to this tendency. In its first year, for example, two-thirds of the revenue came from the corporate tax. Over the period 1912-1926, 40 percent of the revenue was corporate, more so in the first half of the period than the second. Among taxpayers, the average effective rates tended to be considerably lower for individuals (on the order of 2 percent in the first year) than for corporations (about 5.4 percent). Contrary to Brownlee's assertion that Wisconsin was distinctive in the corporate orientation of its income taxation, similar statistics can be provided for other states.[80] For example, during the 1920s about 60 percent of Mississippi's income tax revenues were based on corporate or business income, with about 80 percent of that revenue coming from manufacturing operations.[81] Similarly, as shown in Table 17, 60 percent of New York's income tax revenue in 1927 was corporate.

More broadly, Wisconsin was like other states in highlighting the centrality of corporate taxation within the income tax debate. In New York, for example, the initial income tax legislation passed in 1917 was a corporate-only income tax that grew out of a revision of the corporate special property tax (a franchise tax on capital stock). Some of this tax revenue was used to reimburse localities for their loss of revenue from former taxes on corporate personal property.[82] The Virginia income taxes of 1915-1916 similarly emerged out of a long process of political negotiation over corporate taxation.[83] Some of the key themes in Virginia are familiar at this point: a general backdrop of hostility directed toward corporations, particularly railroads, perceived as evading their tax burdens, but a policy implementation process in which the affected corporations usually achieved favorable outcomes; experimentation with corporate taxation as a

[80] For example, he states that Wisconsin "provided the only example of a system of state income taxation which relied heavily on the taxation of corporate profits"; see W. Elliot Brownlee 1976, p. 299.
[81] Lyons 1915, p. 80; T. S. Adams 1913, 571-2; Kennan 1915, p. 68; Leenhouts 1929, 459; and Rhodes 1930, p. 185.
[82] Harley L. Lutz and Wright 1920, p. 69.
[83] Page 1916.

replacement for the non-realty portions of the general property tax; negotiations among various government levels over the distribution of such corporate taxes, which were pegged to a property tax framework emphasizing the situs of taxable assets, thus leading to perverse outcomes in the distribution of the new state-administered corporate taxes among localities; and ultimately a personal and corporate income tax as a new approach to the longstanding problems of personalty and corporate taxation.

The appeal of the income tax for the bulk of the voting population — which was still not far removed from the tightly bound fiscal culture of the nineteenth century — depended crucially on the fact that the tax was paid mainly by others: corporations, as just noted, and high-income households. A corollary was that it was mainly an urban tax, with most revenue coming from population and business centers where the bulk of taxable income resided. For example, 42 percent of Wisconsin's income tax revenue came from Milwaukee in its first year. Because personal exemptions were set higher than the incomes of most households, only about 2 percent of the population (10 percent of households) were subject to the tax. This translated into a tax that hit roughly 1 percent of laborers and 5 percent of farmers. Even among the income-tax-paying population, the distribution of burdens was heavily concentrated at the top. For example, in 1914, 68 percent of the roughly 42,000 tax returns had incomes below $1000; they accounted for 11 percent of income tax revenue. Meanwhile, 315 returns had net incomes of $15,000 or more, and they accounted for 40 percent. Such outcomes within the taxpaying population were primarily the result of the skew that typically exists in the distribution of any valuable resource, whether it be income or property. What made early twentieth-century state income taxes elite in their incidence was the high exemption level, which excluded the bulk of the population, rather than their rates structures, which ranged from flat (no progression in the rates at all) to moderately progressive (for example, the rates in Wisconsin started at 1 percent and peaked at 6 percent). The distribution of income tax burdens in other states — and at the federal income tax — was roughly comparable. For example, in 1925 the number of

income tax returns ranged from a low of 4 percent of households in Mississippi to a high of 27 percent in Wisconsin (bear in mind that filing a return did not equate to owing tax liability and that most returns represented very small tax amounts). In Mississippi, personal income tax revenues by major occupational categories were distributed as follows in 1926: 37 percent from merchants, 18 percent from executives, 17 percent from capitalists; 12 percent from professions; and 16 percent from other groups.[84]

In short, this was the era of elite income taxation, not mass income taxation. This approach to income taxation was analogous to the way the parties had historically obtained revenue, through office-holder assessments using progressive rate structures.[85] In the case of elite income taxes, however, the concept of "office holder" had been broadened considerably to include all affluent individuals — office holders in society at large rather than just in government.

Even though the early twentieth-century income taxes exempted most of the population, affluent groups could take satisfaction in the larger fiscal bargain that was encapsulated in legislation like the 1911 Wisconsin income tax, which both created a tax and destroyed a tax: as income taxation was adopted, intangibles taxation was eliminated (notably, taxes on stocks, bonds, debts or credits, and money holdings). In addition, various types of tangible personalty taxation were eliminated, such as taxes on farm machinery and household items. The result was that the general property tax was vastly narrowed: instead of being a general tax on wealth, it became a tax on realty and some types of tangible personal property, the most important examples being farm animals and the stocks of merchants and manufacturers.[86]

[84] Rhodes 1930, p. 185; Rebecca Jean Brownlee 1944, p. 42; National Industrial Conference Board 1930c, p. 3; Lyons 1915, p. 81-3; Yearley 1970, p. 240; and T. S. Adams 1913, p. 571-2.
[85] For this insight, see Yearley 1970, p. 225.
[86] T. S. Adams 1913, p. 570-1; John O. Stark 1992, p. 18; Lyons 1915, p. 82; Kennan 1915, p. 17.

The close connection between income and property taxation was illustrated not only in the political events discussed above, but also in the way that various income and property tax provisions were intertwined. One example dealt with the exemption of particular corporate sectors from the new income tax: railroads, public utility corporations, insurance companies, national banks, trust companies, and gas and power companies associated with street railways. The politics of such exclusions have been discussed, but the official rationale rested on the interconnection between the income and property tax systems: the property of such corporations was taxed by the state tax commission under a different regime — in effect, the type of state-administered special property taxes discussed in the previous chapter.[87] A few other examples can be noted concerning the close connections between the systems of income and property taxation: taxes paid on property used to generate income could be used as deductions against income tax liability; the income tax rate schedule for corporations increased in proportion to the ratio between taxable income and the assessed value of income-producing property; and personalty taxes could directly offset income tax liability. The last provision is especially noteworthy in directly framing of the income tax as a personalty tax replacement — quite literally. For example, if a farmer's income tax liability was $20 but he had already paid $15 in tangible personal property taxes, his income tax liability would be reduced to $5. The impact of this provision was substantial, cutting income tax collections by 50 percent during the first year.[88]

While states varied on the provisions of their income tax legislation — for example, several states did not use the direct personalty offset found in Wisconsin — income taxation adopted during the 1910s and 1920s was consistently framed as a replacement for intangibles taxation. The Massachusetts tax, for example, focused even more tightly than Wisconsin's on the issue of intangibles. Rather than being a general income tax, the individual component of the Massachusetts income tax was confined mainly to those types of income that had previously fallen under the old system of personalty taxation.

[87] T. S. Adams 1913, p. 570; Kennan 1915, p. 74; and Lyons 1915, p. 79.
[88] Kennan 1915, p. 71; Lyons 1915, p. 82; T. S. Adams 1913, p. 571-2.

Because it replaced part of the property tax system upon which local governments relied, the Massachusetts tax legislation included revenue sharing with local governments to compensate for the loss of intangibles tax revenue.[89] Other examples such as Missouri, New Hampshire, and Delaware illustrate similarly close connections between intangibles and income taxation.[90]

The adoption of the Delaware income tax is particularly interesting in highlighting an explicit political battle between a revamped personalty tax system and income taxation — exactly the dynamic that emerged in Wisconsin during the first La Follette administration when the attempt to crack down on intangibles taxation threatened to break apart the Republican coalition. In Delaware's case, a key political development occurred during World War I, during which large profits from war-related businesses were realized in the northern section of the state, where Wilmington is located. Correctly or not, the public perception was that these profits were ultimately based on personalty wealth that was escaping the general property tax. At the same time, rising prices associated with the war were making government relatively more expensive. The initial reform proposal put forth during the legislative process was a more vigorous property tax on stocks, bonds, and related intangibles. Influential groups centered in Wilmington, however, saw that the weight of such an investment tax would fall mainly on them. We do not have as many details on the events in Delaware as in Wisconsin; however, we do know that the governor appointed a three-member committee — two from the Wilmington area — to weigh the merits of the two approaches. The committee recommended the income tax, the choice ultimately adopted by the legislature the same year.[91]

[89] Bullock 1916, p. 45-50; Bullock 1918, 530; Harley L. Lutz and Wright 1920, p. 50-53, 69; Seligman 1919, p. 528.
[90] Pyle 1922, p. 363-4; Bigham 1929, p. 237.
[91] Rebecca Jean Brownlee 1944, p. 4-7.

We lack precise information regarding the effectiveness of income taxation as a replacement for personalty taxation. Contemporary analysts who examined states like Massachusetts, New York, and Wisconsin provide some rough evidence, probably amounting to educated guesses, that the new income taxes generated more revenue from affluent individuals than the personal property tax had done.[92] Examining the case of Wisconsin, T. S. Adams argued that the effectiveness of the income tax as a substitute for intangibles taxation varied by urbanization level. In larger cities, the income tax generated more revenue than the old personal property tax. In farming areas, personal property had never represented a significant share of taxable property (on the order of 10 percent), and the yield of the new income tax was correspondingly low. In smaller cities, villages, and rural townships, however, personal property accounted for roughly 30 percent of property wealth, but the income tax yields were insignificant from such areas. Adams concluded that the income tax was functioning as an effective replacement for the personal property tax in farming areas and in large cities, but not in small towns.[93]

While we do not know with great precision whether the new income tax in Wisconsin hit taxpayers roughly in proportion to the burden they would have borne under the older system of intangibles taxation, we do know that the tax was extremely effective under the most basic measure: the revenue yield exceeded expectations. In the first year, $3.4 million in income tax liability resulted from a statewide assessed income of $100 million (before property tax offsets were applied, the income tax liability was $6.0 million). Before 1911, the highest amount ever collected by any state income tax had been about $0.2 million. Relative to modern income taxes, the Wisconsin income tax did not have high rates. Nor did it account for a huge share of state tax revenues (ranging from 17 to 30 percent during the 1920s). Nonetheless, when evaluated against the prior

[92] Lyons 1915, p. 78, 84-85; Bullock 1918, p. 532.
[93] T. S. Adams 1913, p. 583.

history of the revenue device, the yield from Wisconsin's new tax was impressive and garnered the attention of fiscal experts and government officials in other states.[94]

Because the income tax legislation included the elimination of intangibles taxes, it also committed the state government to revenue sharing to compensate localities for lost property tax revenue. This is the same type of political bargain that state and local governments had been making in many other states with regard to the special property taxes discussed in the previous chapter. In Wisconsin's case, the degree of revenue sharing was more pronounced that in other states: 20 percent of income tax revenues were dedicated to counties; 70 percent went to cities, towns, and villages; and the remaining 10 percent went to the state. In effect, the initial Wisconsin income tax was a local tax with centralized administration. During the 1920s, the trend in Wisconsin and elsewhere was to reduce income tax revenue sharing with local governments. Revenue sharing in general did not decline; rather, it started to take different forms and became less tied to income taxation directly. As of 1929, most state income tax revenue went to state governments, with the major exceptions being Wisconsin, New York, New Hampshire, and Massachusetts. A parallel development was the elimination of personalty tax offsets. For example, in 1925 the offset was eliminated in Wisconsin, resulting in significant revenue growth. By the end of the 1920s such offsets had been largely abandoned by states using income taxation.[95]

Administrative changes and their implications

According to observers, the key to the revenue success of the Wisconsin income tax was its administrative system. The primary components of that system can be summarized as centralization, civil service, and incentives to buttress self-reporting. The formulation

[94] T. S. Adams 1913, p. 571-72.; Bigham 1929, p. 242-43; Alzada Comstock 1920, p. 260-62; Lyons 1915, p. 82-83.

[95] T. S. Adams 1913, p. 571; Bigham 1929, p. 242-43; Roy G. Blakey and Johnson 1942, p. 113; Kennan 1915, p. 71; Harley L. Lutz and Wright 1920, p. 66-67, 83-84; Lyons 1915, p. 81; National Industrial Conference Board 1930c, p. 148-49, 179-80; Yearley 1970, p. 240.

of this more robust administrative structure had been one of the key contributions made by the experts — McCarthy and Kinsman.

As discussed in the previous chapter, the first two components — centralization and civil service — had long been part of the Progressive fiscal reform agenda. In the case at hand, the state was divided into 41 assessment districts, which were bigger than counties on average. Each district was managed by an income tax assessor who reported to the state tax commission. Rather than being local political appointees, which had been the case with the general property tax, income tax assessors were to be appointed by the state government, using civil service procedures.

The third key component of the new administrative system was in the creation of a set of incentives. Like the general property tax, early income taxes still relied fundamentally on the self-reporting of assets and on the payment of taxes in lump sums. By itself, this was a weak enforcement mechanism. However, self-reporting was supplemented by a set of incentives that existed mainly on the business side of the income tax system. When filing their tax forms, taxpayers provided information not only about their own incomes but also about persons to whom they paid wages or salaries in excess of $700. Business taxpayers in particular had an incentive to report such income because payment of wages and salaries could be used to reduce taxable net income. Similar incentives existed for other major types of taxable income: in order to deduct payments for interest, dividends, and rents from gross income, businesses had to report the recipients of such payments. In addition, corporate taxpayers were required to disclose all stockholders to whom dividends had been paid.

The observations from contemporary experts about the success of Wisconsin's administrative system were based not only on the income tax systems that successfully yielded significant revenue (such as New York and Massachusetts, which followed generally along the lines set by Wisconsin), but also examples of states that started with

ineffective income taxes and, through administrative changes in the 1920s, achieved noteworthy revenue growth (for example, Mississippi, North Carolina, and North Dakota).[96]

The new administrative system in Wisconsin was applied not only to income taxation but to property taxation as well. The 41 assessment districts were charged with administrative oversight over both types of taxation. The result was a significant improvement in the enforcement of the property tax. For example, assessed property values as a percentage of estimated true values for the state rose considerably as the new administrative structure was implemented: by one estimate, this percentage stood at 61 percent in 1910 and reached 83 percent by 1913. Such improvements should be qualified. The tax legislation of 1911 substantially changed the nature of the property tax, removing significant types of property from the tax rolls. At least in part, the problem was defined away: intangibles, for example, were no longer part of the true property value that the system was supposed to measure. That said, the improvements in property tax administration were probably real, reflecting changes that went beyond the boost in assessment efficacy stemming merely from definitional changes.

As the administratively successful (but politically difficult) experience with beefed-up personalty taxation had illustrated in Wisconsin during the 1901-1902 period, it was indeed possible to enforce property taxation more effectively. The types of centralized, rationalized, and civil-service based reforms needed for an effective income tax were roughly the same types of reforms needed to make a general property tax work better. Indeed, such improvement were implemented in many states during the first few decades of the twentieth century, notably in the states that did not shift as aggressively to replacement taxes (whether income or special property) and instead continued to rely heavily on general property taxation. Governments in such states were not static:

[96] Bigham 1929, p. 234-40; Bullock 1916, p. 52, 58; Alzada Comstock 1920, p. 264-69; Kennan 1915, p. 69-70; Lyons 1915, p. 80; National Industrial Conference Board 1930c, p. 134-6; Page 1916, p. 753; Rhodes 1930, p. 122; John O. Stark 1987, p. 31; Thoresen 1929.

they experienced government growth roughly on par with the growth of government in states that had shifted to the new taxes (recall Table 11). The improvements in property taxation upon which such growth relied depended partly on administrative changes like those adopted by Wisconsin, New York, and other income-taxing states — centralization, civil service reform, and so forth. They also depended on wider economic changes. In discussing the situation in Massachusetts, for example, Charles Bullock commented on the growth of private firms specializing in the collection of information about the ownership of corporate stocks. Writing in 1916, he observed that "local taxing authorities were continually supplied with more information about taxable personalty than they had ever possessed before."[97]

The problem with the general property tax was not that it could not be administered to tap intangible wealth more fully and thus to support the growth of twentieth-century governance. The problem, at least in Wisconsin, was that doing so threatened to shatter the Progressive Republican coalition. In such an environment, the political system made a substantial shift to a new tax device. In other states, the political dynamic played out differently, and governments managed to grow nonetheless, achieving a different mixture of old and new revenue instruments combined with new administrative structures.

Conclusion

As noted in this chapter's introduction, the wider context for early twentieth-century income tax adoptions was similar to that described in the previous chapter's discussion of special property taxes. To reiterate, the period from the 1870s through the 1920s experienced three major political and fiscal transformations: movement away from the general property tax and its local system of administration; movement away from the

[97] Quotation from Bullock 1916, p. 33. Also see Roy G. Blakey and Johnson 1942, p. 118; T. S. Adams 1913, p. 572-74; Kennan 1915, p. 69; Lyons 1915, p. 85.

constrained fisc of the latter part of the nineteenth century; and changes in the behavioral and institutional aspects of politics as voter turnout dropped significantly and permanently, and as voting behavior exhibited less party regularity.

Whereas the previous chapter detailed how those political and fiscal transformations occurred and interacted with each other, this chapter took that context as a given and instead approached early income taxation with an eye on historiographic critique. However, that approach runs some risk of underemphasizing the wider context. For that reason, it might be useful to repeat, in summary fashion, the schematic overview of those transformations, as detailed in the previous chapter's conclusion.

- We begin with the restrained fiscal environment of the late nineteenth century, in which politicians competed for office in closely-fought races by courting the votes of a highly mobilized and partisan electorate acutely sensitive to property tax burdens.

- The prevailing fiscal and political institutions were confronted with socioeconomic change: industrialization, urbanization, and the growing importance of corporate organization.

- These socioeconomic changes modified the calculus of voters and property owners, creating not so much concrete demands for policy change as a new strategic environment within which politicians and interest groups operated.

- Also in response to such socioeconomic changes, opinion leaders and interest groups favoring different fiscal policies emerged; however, many of them were outside of, or blocked by, the existing two-party system, through which most programmatic demands had to be filtered.

• Led by various elites excluded from the usual party channels, a critique of party governance emerged as a more distinct political wing and agenda. A key development in the translation of such interest groups and grievances into a more formal political wing was the sharp decline in electoral competitiveness within states at the turn of the century.

• Changing conditions were also placing new strains on the parties, which began to alter their electoral and fund-raising strategies. Many of the successful political reforms advocated by the insurgents — and accepted by the parties — actually addressed problems the parties were experiencing as changing social and technological conditions were making the old methods of labor-intensive electoral mobilization either less effective or less attractive relative to alternative strategies.

• Within this less competitive electoral environment, interest groups altered their strategies further. Rather than challenge the dominant party directly by supporting the other party so that it could mount a mass mobilization strategy, interest groups sought policy influence by waging campaigns within dominant parties. Interest groups also sought influence by lobbying the state more directly, outside the realm of electoral politics entirely.

• In response to all of these dynamics arose of a new kind of entrepreneurial politician less dependent on parties for support and more inclined to break free of the usual method of fiscal-political competition. Such politicians formed coalitions based partly on promises for new government programs. The resources of the public sector, instead of being used to fund a party that supported the candidate, were now being deployed to forge coalitions within a larger, but less regular and less mobilized, electorate.

• An important precedent for these more expansive political strategies had been interest group lobbying by influential businesses groups during the nineteenth century — still within the old, constrained fisc. Such campaigns had appealed to a "public interest" doctrine to use the resources of the state for developmental or regulatory policy favorable to business groups.

• Both the entrepreneurial politicians who ended up leading state governments and the organized business groups that ended up being the targets of new fiscal devices perceived significant practical and political benefits in the centralizing aspects of the new fiscal reforms.

• Special property taxes and elite income taxes were particularly apt fiscal devices for the initial break from of the confined fiscal environment. They still fit under the property tax rubric, broadly defined, and thus could be perceived as an incremental fix. They also had the advantageous political characteristics of not directly taxing ordinary voters, while also receiving support from targeted industries and groups, which perceived the new taxes as preferable alternatives to a vigorously enforced general property tax.

Notice that this type of explanation for the movement away from the general property tax regime does not suffer from the numerous historiographic flaws outlined at the beginning of this chapter. At the most general level, we do not invoke socio-economic change as an all-purpose, underspecified explanation for fiscal change. We do not speak, for example, of the public demanding that government do something to address the externalities of urbanization and industrialization or demanding that states replace the dysfunctional old tax. To the contrary — and to give a specific example from this chapter's discussion of Wisconsin — the agricultural voting bloc remained favorably disposed to general property taxation even as the income tax was being advanced.

Instead of being portrayed a neutral or inevitable solution in response to socioeconomic change, the new corporate and income taxes are placed squarely within their most direct context — namely, as replacements for intangibles taxation and as solutions to increasingly intense political problems that governing officials faced under the general property tax regime.

By emphasizing this fiscal and political context, we avoid the common missteps of blurring crucial distinctions — specifically, those between early twentieth-century income taxation and modern income taxation, or between state and federal income taxation. Because it emerged within the property-tax context, early income taxation was elite and corporate in its orientation and thus quite different than the mass income taxation that emerged during the second half of the twentieth century. Along similar lines, the correlates of modern and federal income taxation — most notably, fiscal expansiveness — are not assumed to apply to the use of income and corporate taxation by state governments during the early twentieth century. The federal income tax was indeed associated with fiscal expansiveness. The shift to the new revenue devices on the state level, however, did not result in a parallel phenomenon. The state government sector did begin to grow more rapidly during this period, but this growth occurred even among states that continued to rely heavily on the general property tax.

An emphasis on the fiscal and political context also helps when placing early income taxation within the long-term evolution of fiscal structures at the state level. Elite income taxation, special corporate taxation, and general property taxation — all within an increasingly centralized, rationalized, and civil-service-based administrative structure — were the revenue devices from which states chose during this period. Various combinations of these devices can be found in the quantitative record. Moreover, this record fails to support the idea that income taxation (and likewise corporate taxation) somehow represented the pivotal fiscal innovation paving the way toward more

expansive, twentieth-century governance. The contrary evidence is provided by the states that managed to expand while still relying heavily on general property taxation.

In a similar vein, the property-tax context and the quantitative record help to avoid the premature announcement of a new fiscal regime based on income taxation. Although we can make such an announcement for the federal government, which did make a substantial and permanent shift toward income taxation, we cannot say the same thing about the state government sector. An unfortunate feature of much of the fiscal historiography covering this period is its tendency to stop in the 1920s. Ending the story in the 1920s perhaps makes it easier to project the early income tax adoptions forward into the late twentieth century (when income taxation did indeed become a major component of the state-level fisc) and to forget about the more substantial fiscal transformations right around the corner: the first involving auto-related taxes and the second based on general sales taxation. The quantitative impact of early income taxation, while significant in particular states, was too meager in the aggregate to support the suggestion, however qualified, of a new fiscal regime based on the tax. If the early twentieth-century income taxes belong to a fiscal regime, it was one defined not by income taxation as such but by the historically more appropriate label, special property taxes. This was the regime during which states made a substantial departure from general property taxation by adopting a variety of levies intended to reach corporate and intangible wealth. Elite income taxation was one variant of that broader set of developments.

The style of explanation outlined above also helps us avoid an exaggerated view of the progressive, populist, or popular character of state income taxation. Without question, fiscal reformers of the era deployed a public rhetoric sympathetic to the burdens on small property owners, especially farmers. But this fiscal language was commonplace, flexible, and thus not especially revealing. The movement away from intangibles taxation was driven in most of its details by affluent, business, and propertied groups

that were not so much enthusiastic about income taxation as they were opposed to the kind of vigorously enforced, centrally administered general property tax that was threatening to become a possibility within the framework of twentieth-century governance. In this light, the heavy rural emphasis found in Brownlee's account of the Wisconsin income tax is especially confining, because it deemphasizes the other half of the fiscal reform package — namely, the partial or complete exemption of intangibles that accompanied the adoption of state income taxes during this period. That was the more important part of the fiscal bargain from the perspective of the propertied and corporate wings of fiscal Progressivism. Brownlee's agrarian, anti-manufacturing themes also misrepresent income taxation in depicting it, however indirectly, as somehow a progressive tax for ordinary folk — in this case, a tax for farmers. The first choice for farmers had long been, and still was, a vigorously enforced general property tax; income taxation was the comprise.

By emphasizing the general-property-tax context and the quantitative record, we also avoid the restrictive view of Brownlee's critics, who focus so much on defending the genuineness of the fiscal reformers' motives that they fail to probe the assumptions of the era's fiscal reformers and to deploy what is arguably the most powerful approach when analyzing fiscal politics — namely, interest group conflict. The main point here is not to accuse the fiscal reformers of being hypocrites or corporate shills — though there may have been some of that. Rather, it is to insist that the academic experts and government officials who exerted substantial influence over the course of fiscal reform brought with them a set of middle-class and affluent viewpoints that were largely consistent with the needs of corporations, business groups, and wealth-holders generally.

An example of the historiographic tendency to accept the worldview of the Progressive fiscal reformers is found in the exaggerated and unquestioned portrait of general property tax dysfunction. As illustrated by the political events surrounding the adoption

of income taxation in Wisconsin and other states, it was precisely the threat of an invigorated system of wealth taxation that made the search for replacement taxes all the more pressing for political leaders. Even though rhetoric about the plight of ordinary taxpayers under the general property tax was good politics, what animated — and dictated the details of — the push for the new corporate and income taxes were the concerns of the most influential urban, business, and propertied groups.