

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

by

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## **Chapter 8.**

### **Fiscal expansion during the 1920s: an overlooked tax regime**

This short chapter examines the fiscal history of state governments during the 1920s. At first glance, it is not as central to the arguments and narrative of the dissertation as the chapters before and after it. The initial shift of state fiscal systems away from the general property tax was covered in the previous two chapters: some state governments began to move away from the general property tax; replacing the old tax were a variety of special property taxes, usually on corporate property, and later a combination of corporate and (elite) individual income taxes; the locus of fiscal administration and dynamism began to shift from localities to the states; and all of these changes occurred amid fundamental transformations in electoral politics. A more radical and sweeping abandonment of the general property tax will be discussed in the next chapter, which deals with the widespread adoption of general sales taxation — and, to a less prominent degree, the expansion of income taxation — during the Great Depression.

Sitting between those two transformations was a set of developments during the 1920s that has drawn relatively less attention. As might be expected, states continued to build upon the new fiscal devices that were discussed in the previous chapters. A few more states adopted income taxes during the early 1920s, and several states extended their income and corporate taxes systems (raising rates, improving administrative structures, and so forth).

Even more dramatically, state governments substantially reoriented their fiscal structures. The most important areas of state spending — education, carceral

institutions, and state hospitals — continued to be important and to grow. However, the growth in these program areas was dwarfed by the resurgence of transportation spending. During the 1920s and continuing into the 1930s, transportation spending would become the dominant fiscal category for the state government sector. A parallel shift occurred on the revenue side of the budget — namely, the rapid and widespread growth of auto-related taxation, which included vehicle license taxes and, even more prominently, motor fuel taxes. Just as transportation expenditures became the largest expenditure category, auto-related taxation assumed prominence in the field of state taxation.

The rapid growth of auto-related taxation, along with the continued expansion of the Progressive-era fiscal reforms, yielded a fundamental change on the aggregate level: after many decades of relative stasis, the state government sector began to grow rapidly, ultimately exceeding the rate of growth of the local government sector. Starting in the 1910s and gaining momentum in the 1920s, state governments left behind the fiscal restraint of the nineteenth-century (recall Table 6).

As state governments shifted their fiscal systems toward transportation and as the overall growth trajectory turned upward, the Progressive-era fiscal reforms were being reevaluated. Much the way the general property tax came under increasing criticism not very long after it had reached an intellectual peak during the mid-nineteenth century, the package of Progressive era fiscal reforms — separation of sources, property tax classification, centralization, and new tax instruments to replace personalty taxation — experienced a similar reevaluation during the 1920s. The old problems associated with the general property tax — revenue sufficiency, equity considerations, the politics of rate setting, and so forth — had not, in fact, disappeared under the new system.

The emergence of a transitional fiscal regime dominated by auto-related taxation is not usually emphasized in the historiography. This may be partly the result of its relatively

short duration. Auto-related taxes were the largest share of state tax revenue during the 1920s and 1930s — a substantial time, but nonetheless much shorter than the periods before and after that were dominated by the general property tax and then general sales taxation. In addition, the rise of auto-related taxation was relatively non-controversial. In both its adoption and expansion, vehicle licensing and gasoline taxation experienced less political conflict than the other major tax instruments in the fiscal history of American state governments (property, income, and general sales taxes).

In spite of their relative lack of political drama and historiographic interest, the fiscal developments of the 1920s are important in their own right, and an examination of them provides illustrative connections to prior and subsequent developments. In particular, several of the themes from previous chapters are reinforced: corporate and income taxation at the state level were not especially progressive fiscal instruments when evaluated in the context of the obvious alternative, a vigorously enforced general property tax; nor were these taxes advanced and formulated mainly by popular or populist groups; nor can they be said to have represented a culmination or an underpinning for fiscal expansiveness.

In short, the fiscal history of state governments during the first third of the twentieth-century does not support a tidy liberal fiscal narrative — one in which state governments adopted progressive tax instruments to support the growth of a public sector capable of dealing the challenges posed by modern socioeconomic development. Instead, by paying close attention to the fiscal developments during the 1920s, we find that the first widespread acceleration in government growth at the state level would be focused on the building of a transportation infrastructure. This was a spending area more reminiscent of pro-development state fiscal activism during the 1830s than the social insurance or public welfare programs normally envisioned when thinking of the expansion of twentieth-century governments. Moreover, this fiscal expansion was fueled less by modern and seemingly progressive corporate or income taxes than by an

excise tax — a fiscal device that also would have been quite at home in the fiscal world of the early nineteenth-century.

Although the dominant tax device and expenditure area were reminiscent of nineteenth-century patterns, the political dynamic was not. Government expansion during the 1920s occurred within the new political environment described in the previous chapters — one characterized by weaker party affiliations, a less than fully mobilized electorate, the prominence of interest groups both in electoral and administrative realms, and the leading role of entrepreneurial political operators (both elected and appointed) who forged political coalitions by merging interest groups under a platform that spoke the old language of fiscal restraint even while advocating policies that would expand the size of state governments.

The developments of the 1920s also allow us to follow the Progressive era fiscal reform package forward in time. With that purpose in mind, this chapter will draw together the historiography on a case study examined in considerable depth in the chapter on corporate taxation: California. As we shall see, the abandonment of the general property tax on the state level and the adoption of several other Progressive-era fiscal reforms in California did not lead to a simpler fiscal world. Dissatisfaction with state and local fiscal arrangements became stronger as the 1920s progressed. Such developments provide a compelling illustration of the importance of political feedback — that is, the way that the success of one political movement and its policy reforms can yield political counter-movements (as depicted schematically in Figure 25 and discussed in the introduction to Section 3). Government expansion, rising tax burdens, and other aspects of the Progressive fiscal reform package generated political feedback as business groups allied with various taxpayer groups and fiscal experts to combat government growth and to lobby for entirely different fiscal devices.

Such critiques of the state and local fiscal structure would culminate in more radical and widespread changes during the 1930s — the adoption of general sales taxation and the near-complete abandonment of state property taxation. Some of the political, ideological, and administrative groundwork for this shift to general sales taxation was laid by the expansion of auto-related taxation during the 1920s.

### **Quantitative overview of state finance during the 1920s**

As discussed in Chapter 3, the last half of the nineteenth century was a striking period of fiscal restraint. Measured relative to the economy (gross domestic product), the size of government was fairly flat from 1880 through 1910 (recall Figure 5). Within that aggregate trend, the three government levels charted somewhat different courses: local government grew faster than GDP; the federal government shrank roughly the same amount; and state government grew very slightly (recall Figure 7). Indeed, the absence of growth on the state level was a long-lasting phenomenon: from 1840 through 1910, the size of state government relative to the economy did not increase appreciably.

This trajectory changed in the 1910s and even more in the 1920s as state budgets began to expand at a faster rate than the economy. Table 19 illustrates the point. It presents the size of state government as a percentage of GDP at the start of each decade, along with two measures of change in this percentage over each decade. The 1920s are striking when viewed from this long-term viewpoint. No prior decade had witnessed such a rapid expansion in the size of state government. The growth during the interwar period was rapid even when compared to the second half of the twentieth century. Whereas other decades (the 1950s and 1960s) logged roughly comparable increases in percentage-point terms, the 1920s and 1930s were noteworthy in the rate at which the state government sector grew: during each decade, the size of the state government sector relative to the economy roughly doubled. Contrary to the image of the 1920s as one characterized by relatively conservative political outcomes, the decade experienced

the largest peacetime expansion of government spending in the nation's history to that point: local government continued roughly on the growth trajectory that it was already on, and the state government sector embarked on a new, fiscally expansive path.

The effect of these changes on the sub-national revenue structure was to shift the dynamism to the center. Both the state and local sectors grew, but the state sector began to account for ever larger shares of state-local finance. The revenue centralizing trend began in the 1910s, continued in the 1920s, and, as we shall see, accelerated radically in the 1930s (recall Figure 6). The centralization seen in the aggregate revenue statistics was one piece of the broader pattern of centralization. It involved not only a shift in revenue collection toward the state level but also a shift in the administrative center of gravity: states directly administered a larger share of their own tax collections and exerted increasing influence over the administration of the remaining local taxes.

The growth of state and local government during the 1920s followed the pattern outlined in the preceding chapters. The state released all or part of its claim on the general property tax and instead relied on an assortment of new taxes: special property taxes levied mainly against corporate property; corporate income taxes; elite personal income taxes; and then gasoline taxes. Such changes at the state level also worked to increase local fiscal capacity along four dimensions: as the state withdrew its claims against realty, local governments could fill the void; administrative centralization led to improvements in the ability of local governments to tap the property wealth in their jurisdictions; in many cases, the new state taxes involved explicit revenue sharing arrangements with local governments, in part to compensate localities for the loss of personalty taxation that typically accompanied the adoption of special property and income taxes; and as states added new tax devices to their arsenals, they increased the volume of general intergovernmental transfers to localities.<sup>1</sup>

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<sup>1</sup> Haig 1932a, p. 73.

Even though concern about the plight of ordinary property owners was ubiquitous as a rhetorical theme during the Progressive era and the 1920s, the reorganization of the state-local fiscal structure did not translate into lasting relief for real estate under the remaining system of local property taxation. During the 1910s and 1920s, the local government sector not only consumed the slack left by state governments receding from the property tax field but actually exploited the tax more fully. Furthermore, as emphasized in the previous chapter, even those states that did not adopt the new fiscal instruments, the state government sector grew during the 1910s and 1920s roughly on pace with the states that had shifted away from the general property tax. The result was that property tax burdens became considerably higher during the 1910s and 1920s. In many states it was a considerably narrowed property tax — in effect, a realty tax — but it was property taxation nonetheless. The increases in property tax levels were driven mainly by school and infrastructure spending, so the increases were the greatest where suburbanization was creating demands for the full array of urban and educational services.<sup>2</sup>

As noted, the growth of state governments during the 1920s involved a substantial reorientation of purposes. The areas that had held the dominant position in state expenditures — education, carceral institutions, and state hospitals — continued to be important, and even to grow in absolute terms; however, spending on transportation infrastructure, mainly for automobiles, grew much faster and assumed the primary position in the state spending structure during the 1920s and most of the 1930s (recall Figure 20).

In addition to its quantitative importance, road building was an endeavor that transformed state government in important ways. Even though it was accompanied by a new tax that raised substantial revenues, it was nonetheless politically popular. As such, it provided the largest and most widespread example on the state level of using the

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<sup>2</sup> For example, in California: Laichas 1999, p. 528.



fiscal resources of government to forge winning political coalitions. Transportation spending during the 1920s was also an early form of the twentieth-century dynamic of federal-state revenue sharing. In addition, the building and maintaining of highways was a key area in the centralization of administration and planning at the state level — in effect, reversing the political, administrative, and ideological traditions favoring localism in the delivery of government projects. Federal policy was partly responsible for encouraging this trend, because federal matching funds for road work were conditioned on the existence of a state highway department to plan the work. The aggregate quantitative measure of this centralizing trend can be seen, for example, in the rising share of total state and local highway revenues that were collected by state governments: during the 1920s and 1930s this percentage nearly doubled (see Table 20).

As the states assumed a larger share of state-local transportation spending, they also changed the way they raised money for transportation projects. Until 1920, the bulk of transportation revenue came from general property taxation or from the special property taxes. The latter included motor vehicle license taxes, which were typically implemented during the 1900s and 1910s as proxies for personalty taxation on the property value of automobiles. Such license taxes were yet another variant of the broader movement toward property tax classification. Starting in the 1920s, fuel taxes grew rapidly, representing 40 percent of highway revenues by the early 1930s. Vehicle license taxes continued to represent a significant (slightly declining) share of highway revenues, and the reliance on other revenue sources, such as general property taxation, plummeted (see Table 21). This growth in fuel taxation transformed the shape of state revenue structures, making auto-related taxation (the combination of motor fuel taxes and vehicle license taxes) the dominant component of the state government sector (recall Figure 16, Figure 17, and Table 22).

As state revenue structures were transformed, auto ownership diffused rapidly, and this had the effect of altering the incidence of auto-related taxation in particular and of state taxation in general. Before World War I, automobiles were too expensive for most households. According to one estimate, for example, the price of a car was the equivalent of 24 months of wages for the average worker; by the late 1920s, however, this figure had dropped to 3 months. The result was a considerable expansion in vehicle ownership. An estimated 10 to 20 percent of households owned a vehicle in 1920; by 1930 this statistic had risen to 60 percent. In effect, vehicle ownership was within reach for both middle-class and affluent households; in addition, ownership rates tended to be high among rural and farming households (and low among the urban working class).<sup>3</sup>

The net effect of these changes in taxation and ownership was substantial. Before the 1920s, auto-related taxation was a small part of state budgets, one framed within the property tax rubric and the impact of which was mainly on affluent groups. By the end of the 1920s, it had become a type of taxation that represented a substantial share of state revenue, one that tapped a much wider percentage of the population, and one that was based more heavily on sales taxation rather than property taxation.

The growth of state government during this period illustrates an important theme in the expansion of twentieth-century government — namely, the dedicated revenue stream. The era of the general property tax had some broad characteristics: taxation was the main form of revenue (recall Figure 15), and the dominant tax was *general* not only in its tax base but also in flowing directly into the general fund. Although some states did adopt legislative or constitutional mandates that attached portions of general property tax revenue to specific programmatic areas, the default starting position for general

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<sup>3</sup> See Rubenstein 2008, p. 227 and Flink 1988, p. 132. The ownership rates reported here were also compared against estimates obtained from of the relationship between (a) the number of registered vehicles and (b) the percentage of households owning a vehicle, which is available starting in 1948. If this relationship is extrapolated backward to the 1930s and 1920s, the estimated ownership rates are roughly on par with those cited by Rubenstein and Flink. For those data, see Dataset HSUS, series Df300 and Df339.

property taxation tended to be the general fund. The trend during the twentieth century was different. On the federal level, for example, Social Security payroll taxes were strictly confined to one spending area, and similar insurance trust revenue mechanisms became important on the state level during the second half of the twentieth century, as did various utility and urban development taxing mechanisms on the local level. During the 1920s, the main example of a dedicated revenue stream was gasoline taxation, which was usually bound by statute to spending on automobile infrastructure.

### **The adoption of gasoline taxes to fund an automobile infrastructure**

During the nineteenth century, road work — like most other major parts of the sub-national fiscal apparatus — was predominantly a local affair. Localities were responsible for both the administrative and fiscal aspects of road construction and maintenance. To pay for this work, local governments levied property taxes, but it was quite common for citizens to have the option of paying road taxes either in money or labor. Such arrangements fit well with the seasonal nature of agricultural work: obligations for road levies could be paid in labor during the off-peak seasons for farming. It was common for road work to be administered on a county level, but in some states it was even more localized, with counties being further subdivided into road districts that were responsible for construction and maintenance in their own areas. At the start of the twentieth century, the bulk of road funding came from property taxes and labor levies. For example, in 1904 local spending on road and bridge work was valued at \$80 million: 59 percent from labor, 34 from property taxes, and the remaining 7 percent from bond issues and state aid.<sup>4</sup>

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<sup>4</sup> Ballard C. Campbell 1966, p. 274; Ratchford 1941, p. 279; Higgens-Evenson 1998, p. 151; Higgens-Evenson 2003, p. 53-54; John Chynoweth Burnham 1961, p. 436.

Starting in the late nineteenth century and gaining momentum in the early twentieth century, a coalition of interest groups began to perceive an interest in, and to lobby for, expanded road funding. The "good roads movement" advocated not only more resources for the transportation infrastructure but also a more centralized approach to road planning and thus greater involvement from state government. This movement included bicycling enthusiasts, government officials (county supervisors and state highway administrators), agricultural and shipping interests (farmers, farm bureaus, wholesalers, urban merchants, and, more broadly, chambers of commerce), and ultimately various groups tied directly to the automobile and road-building industries (automobile owners and manufacturers, oil companies, petroleum marketers, highway contractors, manufacturers of road-building equipment and materials, and highway engineers).<sup>5</sup>

As urbanization fueled the growth of commercially oriented agriculture, the appeal of a better road network increased. In Wisconsin, for example, the dairy industry was becoming increasingly specialized and oriented toward marketing its products to urban consumers. Developments such as this were especially important to the good-roads movement, because a key political challenge was to convince farmers to part with the system of local labor levies and instead to support a more rationalized, centralized approach to road building based on professional construction and design rather than seasonal work from the rural labor force.

The political effort to convince the rural population to support a centralized, cash-based approach to road building and maintenance was facilitated by the other fiscal changes occurring during the late nineteenth and early twentieth centuries. To the extent that state governments reduced their reliance on property taxation by adopting new

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<sup>5</sup> Ballard C. Campbell 1966, p. 276; John Chynoweth Burnham 1961, p. 455; Higgens-Evenson 2003, p. 52-60; Ratchford 1941, p. 279.

corporate or income taxes, the agricultural sector became more willing to tolerate cash-based systems of road finance.<sup>6</sup>

The general trend toward administrative and fiscal centralization during the late nineteenth and early twentieth centuries also applied to road building and maintenance. Some state governments began to assume a larger role by providing state-aid to local governments for road and bridge work, but with supervisory and regulatory strings attached to the funds, thus rationalizing and centralizing road planning and funding within the older system of direct local implementation. This trend started in the more developed and commercial states of the Northeast. New Jersey was a leading state in this regard. In 1892 it created a framework for providing financial and administrative aid to assist county governments with road construction. Under this system, adjacent property owners paid a tenth of the costs, the state paid a third, and the counties paid the rest. A typical pattern of the state road acts during the 1890s was that counties continued to be the primary initiators and administrators of projects, while state governments provided supplemental funding along with engineering expertise and oversight. During the 1900s, other states followed this pattern, passing state-aid laws and creating state highway departments (for example, Pennsylvania, Alabama, Wisconsin, Oregon, and California). During the late nineteenth and early twentieth centuries, the trend toward a more centralized administrative apparatus was more widespread than were actual fiscal commitments; in this period, only a small number of states (for example, New York) made major expenditures on transportation projects. In 1916, the centralizing trend received a substantial boost by the Federal Aid Road Act: in order to receive federal transportation funds, states had to spend matching amounts, and they had to have a state highway department or commission to manage the state highway system and supervise the expenditures.<sup>7</sup>

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<sup>6</sup> Ballard C. Campbell 1966, p. 276-280, 289; Higgens-Evenson 2003, p. 53-55.

<sup>7</sup> Ballard C. Campbell 1966, p. 276; Higgens-Evenson 2003, p. 52-60; Ratchford 1941, p. 279; Teaford 2002, p. 29-35.

Although the shift to administrative centralization and, in some states, greater state funding for road work can be seen in the first two decades of the twentieth century, the more radical and widespread shift toward state involvement in the building of a road infrastructure occurred in the 1920s, after the adoption of the Federal Aid Road Act and, even more importantly, after the adoption of gasoline taxes. Three states adopted such taxes in 1919: Oregon, Colorado, and New Mexico. By 1924, 44 states had adopted the tax. As of 1929, every state had a gasoline tax, and 21 states had ceased using property taxes for highway work entirely.<sup>8</sup>

As evidenced by its rapid spread, gasoline taxation faced little political resistance. This was due in large part to the successful characterization of the revenue instrument as a narrowly tailored user fee rather than a general tax. The older automobile license taxes also benefited from a similar association with user fees, even though they typically had been adopted as a type of classified special property tax. The auto license system in Oregon, for example, not only created the new license tax but also exempted automobiles from personalty taxation. Thus, in a single fiscal maneuver, taxation of a valuable asset was shifted out of the realm of general taxation and became a user fee. Gasoline taxes also enjoyed the political advantage of being inexpensive to administer and thus received strong support from state government officials. The low expense was based on the collection point: fuel wholesalers. In some cases, the tax was framed as a license tax levied on wholesalers; in other cases, it was framed as an excise tax on gasoline, with revenue collection occurring at the wholesale level. This collection mechanism was both administratively simple and politically advantageous. In Oregon, for example, the debate over the gasoline tax legislation raised concerns about taxing gasoline retailers, and this route was explicitly rejected; instead, the tax was framed as a tax on wholesalers. In terms of economic incidence, this was a distinction without a difference; however, it mattered politically. Finally, gasoline taxation was aided politically by the exemption of off-highway uses, the most notable example being the

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<sup>8</sup> John Chynoweth Burnham 1961.

use of gasoline by agricultural machinery. Such exemptions not only reinforced the idea that gasoline taxes were highway user fees; they also provided a valuable economic benefit to an important voting bloc that had reason to resist the trend toward centralized, tax-based fiscal arrangements for highway construction work.<sup>9</sup>

The controversy surrounding gasoline taxation, if any, revolved not around the adoption of the revenue device but the disposition of its revenue. In New Mexico, for example, early versions of the tax legislation dedicated a third of the revenue to school finance; however, the ultimate bill directed all proceeds to highways. During the 1920s a key platform of the good roads movement was to earmark all gasoline and vehicle license taxes for road work. Known as anti-diversion, this campaign was largely successful. Diversion tended to be low in the 1920s and to occur more often in the South than in other regions. It also would increase somewhat during the economic crisis of the 1930s. Starting in 1934, however, the formula for federal highway funds included penalties for diverting states. As noted above, early state road building projects (before World War I) typically had been paid for out of general funds; thus, the explicit setting aside of dedicated revenues for road work was a new development, especially in light of the magnitude of the new revenue stream yielded by gasoline taxation.<sup>10</sup>

The rapid increase in gasoline tax revenues during the 1920s was driven both by the diffusion of automobile usage and by the increase in gas tax rates. A key factor in lessening political resistance to such increases was the pronounced downward trend in gasoline prices during the decade, due to improvements in refining technology. Even though tax burdens on fuel were rising, drivers were paying less at the pump.<sup>11</sup>

### **Factors allowing state government expansion during the 1920s**

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<sup>9</sup> John Chynoweth Burnham 1961, p. 435, 440, 447-8, 456; Crawford 1937, p. 1; Teaford 2002, p. 109-10.

<sup>10</sup> John Chynoweth Burnham 1961, p. 443-45, 449, 455; Ratchford 1941, p. 279-81.

<sup>11</sup> John Chynoweth Burnham 1961, p. 449; Teaford 2002, p. 109-10.

Relative to their long-term historical trajectory, state governments made a radical departure during the 1920s, embarking on a more rapid rate of growth. Several of the factors underlying the shift to fiscal expansiveness were discussed in the chapters dealing with corporate and income taxation. Of particular importance was the rise of a new type of entrepreneurial politician less dependent on parties for support and more inclined 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. Beyond such changes in the political environment, there were other characteristics of government expansion during the 1920s that are worth emphasizing when trying to make sense of the new growth trajectory.

A significant share of the growth of state government during the 1920s was driven by rising revenues from the new tax instruments — corporate taxes, income taxes, and auto-related taxes. These taxes had the appealing political characteristic of being directly paid by a small share of the electorate: corporate taxes — quite unlike their predecessor, personalty taxes — were not directly paid by voters; personal income taxes were paid only by the affluent; vehicle license taxes and gasoline taxes were paid only by those who owned vehicles. The latter category was a small share of the electorate in the early 1920s. Even as that percentage grew, auto-related taxation still had the politically advantageous appearance of a user fee. Moreover, even at the end of the decade a non-trivial share of households did not own a vehicle and thus did not directly bear such burdens.

As noted, the most rapid area of spending growth during the 1920s was transportation infrastructure. This was probably a political advantage. Unlike the kinds of welfare, social-justice, or regulatory programs often envisioned when discussing the rise of big government during the twentieth century, transportation spending lacked any tinge of progressive, populist, or redistributive politics. The solid orientation toward economic



development, even boosterism, made the expansion of state government more palatable to the corporate and affluent groups who directly paid a large share of the new taxes. In broad terms, the trajectory of the state fiscal sector during the first three decades of the twentieth century went as follows: as corporate and affluent taxation became more important, the financial priorities of state governments shifted toward building a physical infrastructure to foster commercial development.

In addition to being supported by new taxes that were paid directly by a small share of the electorate, transportation work in some states also relied on borrowing rather than the pay-as-you-go financing that had been characteristic of the last half of the nineteenth century. Before state governments could use debt as a financing mechanism, some of the nineteenth-century statutory and constitutional limits on borrowing had to be circumvented. Especially important were court decisions declaring that revenue bonds did not count as indebtedness for the purpose of state debt limits. The reasoning was that such limits had been implemented to protect the rights of taxpayers; however, revenue bonds were self-liquidating, usually by charging rates to the users of the projects. Because they did not depend on general tax revenues, revenue bonds did not fall under constitutional debt limits. Such interpretations drew upon earlier decisions that had excluded special assessment bonds from the calculation of debt loads, because the assessment bonds were backed not by the general taxing power of a locality but by an earmarked tax (special assessments) that was levied on the most direct beneficiaries of the project. In similar fashion, highway bonding depended on revenue streams — gasoline taxes and vehicle license taxes — that were explicitly tied to highway construction and maintenance. In effect, taxpayers became ratepayers: the legal-political logic framed the bonds and the underlying user-fee revenue stream in a way that addressed the inherent tensions between general taxpayers and particular users of a government service. On a more direct and intuitive level, the combination of borrowing and user fees allowed major capital projects to go forward in a way that was one step removed from taxation. Another important development in facilitating the

expansion of debt financing was the exemption of state and local bond interest income from federal income taxation. This exemption had an immediate effect: municipal borrowers and corporate borrowers had paid similar interest rates before 1913, but not after.<sup>12</sup>

The early and dramatic victories for the good roads-movement during the 1900s and 1910s hinged on borrowing. California's bonded debt, for example, increased rapidly after the major fiscal reforms of 1910, which included approval of bonds for highways and an expansion of the San Francisco harbor. As of 1918, however, only 11 states had borrowed for highways, and just 4 states accounted for over 90 percent of the total (New York, Massachusetts, California, and Maryland). The more widespread use of debt to fund transportation projects would not occur until the 1920s, during which the aggregate level of state borrowing reached unprecedented levels. Well over half of that borrowing was used to fund highway projects. It is important to emphasize that there was considerable variation across states in their reliance on borrowing to finance highway infrastructure. Ratchford's analysis of borrowing during the 1919-1938 period compares the 14 heaviest borrowers, which accounted for 70 percent of state highway borrowing, with the 14 states that borrowed virtually nothing for highways. The two groups of states were roughly comparable in square mileage and per capita income, but the heavy borrowers represented about half of the nation's population and manufacturing value-added, whereas the light borrowers represented about one-fifth. As might be expected, the heavy borrowers devoted more resources to highways and ended up with both more and higher-quality roads.<sup>13</sup>

As noted, the growth in state government during the 1920s was reminiscent of the previous period of fiscal expansion by the states — the 1830s. The parallelism lies not only in the expanding fiscal posture of state governments and in the emphasis on transportation infrastructure. It also lies in the use of a modified version of cameralist

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<sup>12</sup> Sbragia 1996, p. 106-13, 133.

<sup>13</sup> Laichas 1999, p. 596; Ratchford 1941, p. 260-63, 276, 302-10.

finance — that is, finance not dependent on direct taxation of the general electorate. During both periods, borrowing to fund major transportation projects was financed by user-fees. The canal and road tolls of the 1830s are roughly analogous to the gasoline taxes of the 1920s. The two periods also share a kind of reverse parallelism in their long-term political trajectories. The 1830s and 1840s were a time of fiscal expansion followed by increasing fiscal negativism, set against a backdrop of rising electoral mobilization and partisan affiliation. The 1920s were a period characterized by the relatively demobilized and less partisan electorate of the twentieth-century — an environment in which entrepreneurial political leaders frequently deployed the language of fiscal restraint even as they forged political coalitions by uniting interest groups around an expansive set of policies funded, to a significant degree, by taxes not borne directly by much of the electorate.

One component of this style of fiscally conservative-but-expansive politics was the strategic deployment of the institutions of direct democracy — the initiative and referendum. Such mechanisms allowed a restricted — but more motivated — electorate to provide political cover for spending growth. Single-issue interest groups could use the initiative and referendum to bypass the traditional political battlefield of electoral politics, in which each party tried to outdo the other in protecting the taxpayer against rising burdens. In a low-turnout special referendum on a bond issue, for example, a coalition of interest groups favoring an expanded transportation infrastructure could wage successful campaigns that might otherwise fail under conditions of broader turnout and more partisan voting alignments characteristic both of the previous century and of general elections.<sup>14</sup>

At least in the states that relied heavily on the referendum and bond financing, we find an interesting combination of superficially contradictory developments. In one sense, fiscal activity was becoming divorced from the electorate: the electorate was less

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<sup>14</sup> Higgins-Evenson 2003, p. 52-59; Laichas 1999, p. 713-15, 851. Also see Erie 1992.

mobilized in the aggregate, and government expansion was funded increasingly by revenue devices that did not directly tax many voters. At the same time, however, government expansion was advanced with a political strategy that employed periodic voter approval for major infrastructure projects. These connections between fiscal expansion, political demobilization, and interest-group-based direct democracy are suggestive. McDonald, for example, has speculated that "both the political demobilization that was well underway by 1900 and fully in place by the 1920s and the expansion of public sector activity at all levels in the same period are very likely part of the same development."<sup>15</sup> Coming at the topic from a different angle, Higgens-Evenson's interpretation of the period occasionally suggests that there was a causal connection between the institutions of direct democracy and fiscal expansion.<sup>16</sup> A somewhat different way to think about such connections is to consider what general demobilization and direct democracy have in common. Both signal the end of a political regime based on competition between the broad platforms of political parties in a closely fought battle to garner support from even the most marginally attached voters. It seems plausible that the more generalized political competition between party platforms, in combination with the need to appeal to the votes at the far margin, would incline the system toward fiscal negativism. By contrast, interest group competition over more specific issues — for example, whether to approve a highway bond — might seem more conducive to fiscal expansion, because each particular electoral event would draw the greatest interest from the bond measure's advocates.

The other major area of state spending in the 1920s — education — experienced general trends similar to that seen in transportation spending: fiscal expansion; administrative centralization at the local level (for example, consolidating schools and districts); administrative centralization at the state level, in giving the state a larger regulatory and policy role; fiscal centralization as the state government's share of education funding increased; the use of indebtedness to finance capital improvements;

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<sup>15</sup> McDonald 1990, p. 235.

<sup>16</sup> Higgens-Evenson 2003, Chapter 4.

the key role played by experts, often state employees, in spearheading movements to expand state government activity; and, finally, the growing trend of placing major categories of state expenditures in special budgetary categories outside the general fund and its associated biennial cycle of political renegotiation.<sup>17</sup>

### **The exhaustion of the Progressive fiscal reform agenda**

The 1920s witnessed not only the explosive growth of a new fiscal device but also the playing out of the Progressive-era fiscal reform package — separation of sources, property tax classification, replacements for personalty taxation, administrative centralization, and so forth. The continued salience of the latter set of developments is illustrated by noting that while the most rapid area of state government growth depended primarily on the new gasoline tax, the second largest spending area (education) still received the bulk of its funding either from the redefined property tax or from the corporate and elite income taxes that had emerged as replacements for personalty taxation. To place the emergence of gasoline taxation in context and to lay some groundwork for the next chapter, the remainder of this chapter will consider how the Progressive fiscal reforms fared during the 1920s. The discussion will pay particular attention to a case study that has been covered well in the historiography: California.

As detailed in Chapter 6, California underwent a radical fiscal and political transformation in 1910. A new fiscal system was formally adopted as Amendment 1 to the constitution. The state government largely abandoned the general property tax and instead relied on various corporate taxes, most notably a gross receipts tax on railroads and other public service corporations. Corporations subject to the new state-level taxes then received exemptions from the local general property tax. Local governments could levy the general property tax against the non-operative property of such corporations (primarily realty), but not against operative property. In addition to undergoing a major

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<sup>17</sup> Higgens-Evenson 2003, Chapter 5, especially 65, 70-75; Laichas 1999, Chapter 9. Also see Erie 1992.

transformation in its tax structure, California approved transportation bonds for highways and the San Francisco harbor, modified the political process by adopting both the initiative and referendum, and elected Hiram Johnson as governor, an entrepreneurial politician somewhat outside the usual party channels who forged a new political coalition based in part on promises of an expanded fisc.

Criticisms of the new fiscal system were not long in coming, even from official voices that had been influential in pushing forward the set of Progressive-era reforms. In California, for example, the 1915-1916 state tax commission cited a number of defects in the performance of the property tax system under the framework established by Amendment I. In addition, it recommended the adoption of new state taxes on either income or sales, increases in certain types of corporate taxation, and a less stringent legislative standard — simple majority rather than two-thirds — for changing state tax laws. More broadly, enthusiasm for state income taxation — the device that Seligman, for example, had viewed as a culmination of the Progressive reform agenda — waned fairly quickly after World War I. After the revenue successes of the Wisconsin and federal income taxes, many observers had been enthusiastic about the prospects for state-level income taxation as a substitute for the general property tax. However, the interest in income taxation faded such that by the early 1920s the tax was viewed less as a full replacement for state-level property taxation than as a supplemental revenue device. After 1923, no state income tax adoptions would occur until the Great Depression had begun.<sup>18</sup>

What were the problems — both real and perceived — with the new fiscal systems implemented during the Progressive era? One set of concerns dealt with the conflicting perceptions about the revenue capacity of the new fiscal system. On one hand were the usual concerns about insufficient resources to meet growing expenditure demands. At the same time, the system was regularly criticized for its fiscal extravagance. In the case

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<sup>18</sup> Laichas 1999, p. 610; Pyle 1922, p. 365.

of California, such arguments often emphasized the pernicious effects of the instruments of direct democracy in a fiscal structure based heavily on taxes that were not borne directly by the electorate.<sup>19</sup> Another commonly noted problem in California was systemic inflexibility. The heavy use of direct democracy, coupled with the state's legacy of embedding parts of the fiscal system in the constitution, led to a situation in which a large percentage of expenditures were beyond legislative control, since they were determined by constitutional or prior electoral mandates.<sup>20</sup> Related to such problems was the growing realization of the illusory nature of a pillar of Progressive-era fiscal reform — separation of sources. State and local budgets and functions had become so intertwined that nominal separation — declaring one set of taxes for state government and another for local government — had less practical effect on aggregate outcomes than had been hoped. For example, as the state government vacated the field of property taxation, localities picked up the slack, and relief for local property taxpayers did not materialize over any extended period. On the expenditure side, a significant share of the state budget effectively became the local budget, as various constitutional and statutory commitments were made to particular spending areas that had historically fallen under local purview, notably education and roads. The reverse dynamic also occurred: during the late 1920s, as the state government's share of school and road funding declined, local governments felt pressure to make up the difference.<sup>21</sup>

In addition to experiencing the usual problems related to revenue sufficiency and aggregate burdens, the new fiscal system also experienced a variety of balancing or equity problems. Adjusting tax rates under the new regime proved to be no less vexing than the complications of the old regime, and there was a host of perceived inequities. Such concerns operated along the following dimensions, which will be discussed in turn: between corporate and common property; within the remaining property tax system; and among different types of business property.

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<sup>19</sup> Stockwell 1939, p. 40; Laichas 1999, p. 436.

<sup>20</sup> Stockwell 1939, p. 9.

<sup>21</sup> Stockwell 1939, p. 10; Laichas 1999, p. 517.

Perhaps the most fundamental problem with the classified property tax systems engineered by Progressive reformers involved the balancing of burdens between so-called common property (the property still under the remaining, typically local, property tax) and classified property (the property that fell under the new corporate taxes or, more implicitly, the personalty resources that were supposedly being tapped via other means through income taxation). Having been expressly designed to replace the general property tax, the new state taxes on corporations carried an implied mandate that corporate rates be set with an eye toward keeping the effective tax rate on corporate wealth roughly equivalent to (or at least as high as) the burden imposed on common property taxed locally. This was certainly the case in California. As Stockwell writes, "it was assumed throughout the separation [of sources] period in California that the law required an equality of tax burden between common and corporate property."<sup>22</sup> As noted already, the burdens on common property continued to be a major political problem. Tax relief for real estate had not materialized, because local governments increased their property tax rates as the state government vacated the field. Local property taxes in California reached unprecedented levels in the 1920s, and this experience was fairly typical of the situation in other states.<sup>23</sup>

Within the remaining property tax, underassessment was still a significant problem. A 1917 state tax commission, for example, concluded that the 1910 reforms had not ended the problem of local undervaluation. Indeed, the 1929 tax commission judged that underassessment had become more pronounced since 1906: real estate in 1928 was assessed at roughly 42 percent of true value, as compared to 60 percent in 1906.<sup>24</sup>

Similarly, equity considerations among various business sectors remained a vexing problem: among different types of corporations (notably between large and small

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<sup>22</sup> Stockwell 1939, p. 19 for quotation; also see p. 3 and 27-30, along with Blackford 1977, p. 158.

<sup>23</sup> Laichas 1999, p. 520; Stockwell 1939, p. 4 and 32.

<sup>24</sup> Stockwell 1939, p. 4.



companies) and among different businesses within a particular class (the new system, for example, had complicated the method of taxing public utilities). In addition, the exemption of the operative property of railroads and public utilities from local property taxation spawned a long-running set of political, legal, and administrative battles over the classification of particular types of property as either operative or non-operative. The California tax commissions of 1917 and 1929 essentially concluded that the problems of property classification and rate setting under the new system were not amenable to a satisfactory solution.<sup>25</sup>

By 1929, the state tax commission was ready to scrap the system and shift to a different model. The commission declared the current system to be thoroughly flawed and recommended that the system of business taxation — based explicitly on gross receipts but implicitly on property value — be converted to a net-income basis. In addition, the commission recommended a personal income tax and a reduction in property taxes. In effect, such recommendations represented the other variant of Progressive-style fiscal reform: corporate and elite income taxation rather than special property taxation. Such recommendations were perhaps less urgent than the commission's diagnosis of the system's flaws. Partly as a result of this timidity, and even more because of an absence of strong gubernatorial leadership on the issue, the commission's work did not lead directly to major policy changes in 1929. Such changes would have to wait until the economic crisis of the 1930s increased the pressure on state government.<sup>26</sup>

The fiscal world created by the Progressive reformers had not simplified the equity issues plaguing the general property tax regime. Nor was it particularly coherent in its handling of burdens and benefits. Fiscal politics remained highly conservative in its rhetorical trappings: the language of budget balancing and economy in government was ubiquitous. At the same time, it was also a more liberal fiscal world, with many interest groups making competing claims on the fisc. Moreover, the reformers who had

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<sup>25</sup> Blackford 1977, p. 157-59; Laichas 1999, p. 610-11; Stockwell 1939, p. 3-5.

<sup>26</sup> Laichas 1999, p. 830-39; Stockwell 1939, p. 27-41.

campaigns for programs involving more energetic governance rarely emphasized the costs.

In such an environment, a counter-movement increasingly critical of expansive government and rising tax burdens was to be expected. California politics during the 1920s witnessed a growing mobilization against — and disillusionment about — fiscal expansion, as conservative critiques of government growth resonated for many voters and interest groups. Calls for retrenchment and for pay-as-you-go financing became more common in the political discourse.<sup>27</sup>

A leading role in this counter-movement was played by the corporations that had successfully exchanged the threat of a vigorous general property tax for the new array of corporate and income taxes during the Progressive period. The system 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 made these corporations well placed to serve as leading voices in the wider political discourse over fiscal policy. During the 1920s, 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 advocating economy and efficiency in government and ultimately a different set of tax instruments. This movement followed the familiar pattern in which elite and propertied groups tap baseline popular resistance to tax burdens — deploying fiscal rhetoric emphasizing concerns for the common taxpayer but advocating policy change with a decided tilt toward the interests of the affluent.

The anti-tax coalition included familiar fiscal reformers from the previous era. Some of the leaders who had played influential roles as experts in designing the new tax devices that had helped release the fisc from its tight partisan confines became lobbyists for a

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<sup>27</sup> Laichas 1999, p. 588-93, 719; Higgens-Evenson 2003, p. 105.

new restraint during the 1920s. For example, during the late 1910s and the 1920s, Carl Plehn, the intellectual architect of California's 1910 fiscal reforms, lent his expertise to opposing efforts to increase corporate tax rates. The California Taxpayers Association (CTA) played a similar role. Having close ties to the National Taxpayers Association (NTA), the CTA was one of the more influential expert groups on fiscal affairs in the state during the 1920s. Much like the NTA, the CTA had a dual personality: on one hand, its membership included academics inclined toward skepticism, study, and the design of an efficient, rational fiscal system; at the same time, it also represented the state's major taxpayers and thus advocated both general tax reduction and fiscal policy changes favorable to the larger industries that tended to be prominent in the CTA.<sup>28</sup> While the role of experts in pushing for retrenchment during the 1920s may seem like a reversal, the contrast is more apparent than real. As emphasized in previous chapters, the concerns of reformers like Plehn and Seligman had never been fundamentally in conflict with the interests of large corporate groups. Only a misreading of the fiscal history would confuse the corporate and income taxes designed by the likes of Plehn and Seligman with anti-corporate politics. To the contrary, they explicitly disavowed any such motivations and emphasized that their reform plans were neither anti-corporate nor intended to encourage fiscal extravagance.

Meanwhile, the advocates for expanded state programs played a largely reactive role on the fiscal front, focusing their energy on increasing funding for their own areas — education, labor issues, and so forth. Both in California and other states, the cause of progressive social reform lacked a clear link between policy ends and fiscal means. Such groups did not devote much attention to the creation of a fiscal structure and supporting ideological framework to fund their programmatic agenda. Laichas summarizes the situation in California during the 1920s:

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<sup>28</sup> Higgins-Evenson 2003, p. 100-106; Laichas 1999, p. 655-664.

It was not long before corporations, taxed at the state level, found ways to make common cause with city and county property owners, quickly undermining the legitimacy of [Governor Hiram] Johnson's programs. In the meantime, the interests most dependent on the revenue stream — educators, women's clubs, labor unions, and others — devoted little attention to the tax system as a whole. During the entire period from 1915 to 1930, those who served on tax commissions, hired tax experts, and developed tax policy were, for the most part, the largest tax payers. In short, the activist consumers of state revenues never developed a strategy to build a fiscal foundation for their reform work.<sup>29</sup>

## **Conclusion**

State governments substantially reoriented their fiscal structures during the 1920s. The decades-long era of fiscal stasis at the state level came to a decisive end, and the rate of state government growth relative to the economy was rapid even in comparison to the second half of the twentieth century. This growth was accompanied by major transformations of state budgets on both the revenue and expenditure sides. A minor fiscal regime dominated by transportation spending and auto-related taxation emerged, and it would last for nearly two decades. Thus, the first widespread acceleration in government growth at the state level was centered on the building of a transportation infrastructure rather than funding an archetypal welfare, social-justice, or regulatory state. Furthermore, this growth was fueled not so much by modern and seemingly progressive corporate or income taxes as by an excise tax on gasoline.

Among the factors that allowed government growth to accelerate during the 1920s, perhaps the most prominent was that the new state-level taxes were not paid directly by most of the electorate; instead, direct tax payments were made by corporations, affluent income earners, and automobile owners. The gasoline tax in particular had additional advantages: it was easy to administer, readily characterized as a user fee, and largely hidden from view since it was collected at the wholesale level and levied against

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<sup>29</sup> Laichas 1999, p. 598-99; also see 710-11, 848-49.

a commodity undergoing more general price declines. Moreover, its revenues were dedicated to a spending area that was appealing not only to the business-minded, affluent, middle-class, and propertied groups that bore most of the direct state tax burden but also to an agricultural sector increasingly oriented to serving urban markets and thus able to benefit greatly from improved networks of state and county roadways. In the less mobilized, less partisan electoral environment of the 1920s, entrepreneurial politicians had the leeway to forge political coalitions around more expansive spending programs. This growth agenda made strategic use of the institutions of direct democracy, which allowed motivated interest groups to provide political cover for spending growth. The characteristics of this electoral environment — generally low rates of turnout and the use direct democracy to sanction fiscally expansive policy — signaled the end of an older political regime based on tight competition between political parties to win support from every last voter through platforms promising to minimize tax burdens.

The fiscal world that the Progressive reformers had created was messy and contradictory. The basic reform package — separation of sources, property tax classification, centralization, and new tax instruments to replace personalty taxation — had not resulted in a simpler fiscal world. Old problems persisted and new ones emerged, problems every bit as vexing as those encountered under the general property tax regime. The new system was criticized both for yielding insufficient revenue to meet pressing needs and for extravagance. In particular, tax relief for real estate had not materialized; to the contrary, local property tax burdens became even higher. In addition, whereas the main difficulty encountered by the general property tax had been that of accurate assessment (how to locate and value all property), the classified property tax regime engineered by the Progressives faced an additional complexity — namely, rate setting with an implied mandate to balance burdens across different sectors and types of property.

It was also a fiscal world ripe for disillusionment and counter-reaction. Still conservative in rhetoric — budget balancing and economy-in-government remained watchwords — fiscal politics had become more liberal in practice as many interest groups made competing claims on the fisc. Moreover, the advocates of fiscal growth typically did not emphasize the costs of their programs or devote much energy to building a fiscal and ideological framework to support more expansive governance. The reaction was predictable: calls for retrenchment and pay-as-you-go financing became more common in political discourse during the late 1920s. A familiar pattern emerged in which elite and propertied groups tapped popular resistance to tax burdens. Even though this movement emphasized the burdens borne by common taxpayers, it was led by the corporate voices that were now more closely entwined in the day-to-day administrative and political aspects of state-level fiscal affairs.

The growing critique of the new fiscal world did not call merely for lower tax burdens. It was also affiliated with an ideological movement favoring new forms of taxation. Recall that the bedrock of the Progressive era fiscal reform package had been to replace the general property tax, to move state governments away from their heavy reliance on wealth taxation. The groups that had been so influential in architecting replacements for personalty taxation during the Progressive era ended up being dissatisfied with the outcome. It had been, after all, a decidedly partial reform agenda: the replacements for personalty taxation were still closely attached to the rubric of property taxation (hence, for example, the difficulties of balancing burdens between corporate and common property under California's elaborate classified tax system). Even more fundamental was the problem of "profligate democracy" that had so concerned the Gilded Age and Progressive critics of partisan governance — that is, the fiscal extravagance that resulted when the electoral system translated the interests of a largely non-taxpaying voting population into government spending.<sup>30</sup> Whereas the electoral mechanism behind this process had changed — from an entrenched party system to the institutions of direct

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<sup>30</sup> Yearley 1970, p. 20.

democracy — the essential critique had not: if a sizable part of the voting population did not directly bear the primary taxes that supported state and local government, the fiscal system risked excess.

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 that had been designed explicitly as property tax replacements and that had been enacted alongside corresponding general property tax exemptions, notably for personalty. The system was based either on wealth taxation or on replacement taxes paid mainly by businesses and the affluent. The auto-related taxes that were the primary drivers of fiscal expansion during the 1920s were quite different, having either limited historical connections to property taxation (in the case of vehicle license taxes) or no connections whatsoever (in the more important case of motor fuel taxes). In short, auto-related taxation was based on *consumption* rather than *wealth*. As automobile consumption diffused rapidly during the 1920s, reaching 60 percent of households by the end of the decade, so too did the incidence of state-level tax burdens. Moreover, whereas taxable property assets vary radically from one end of the ownership spectrum to the other, the consumption of gasoline does not: the cars owned by the worker, the farmer, or the captain of industry do not consume drastically different volumes of gasoline.

In this sense, the fiscal transformations of the 1920s served as an entering wedge. Along one dimension, 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 the affluent, corporate, and propertied groups that exerted the greatest direct control over the fiscal system. At the same time, the fiscal device used to finance this rapid growth pointed the way toward a more radical solution to such problems — a solution that would end state government's dependence on wealth taxation and substantially widen the taxpaying public.

## **Chapter 9.**

### **Taxing the masses: sales and income taxation during the Great Depression**

In the history of American state and local taxation, the 1930s are arguably the period with the most dramatic and radical transformations. Alongside the economic collapse of that decade was a parallel collapse in the property tax system. Because incomes fell faster than tax levies, many property owners found themselves unable to pay their property taxes — or at least unwilling to do so, given other demands on their reduced incomes. It was common for property tax delinquency rates to reach levels of 25 percent or more. The collapse of the property tax system involved not only high levels of tax delinquency, but also a collapse of the usual economic incentives against delinquency and of the administrative processes for dealing with it. Even though the property tax had already ceased to be the dominant source of revenue for some state governments, it continued to be for local governments; moreover, the local government sector was still considerably larger than the state sector. Thus, even for state governments that had largely abandoned property taxation, the collapse of the property system was the central fiscal problem of the era. More than any other issue, it drove fiscal reform during the decade. State governments felt the pressure of the property tax problem from two directions. One was the general pressure to lower tax burdens, especially property tax burdens. The other was the pressure to increase aid to local governments to compensate for delinquent property tax revenues so they could keep schools open, maintain municipal services, and provide relief for the unemployed.

Amid the wider economic crisis and the collapse of the property tax system, five broad fiscal transformations occurred.



**The effective end of the state-level general property taxation.** The 1930s represent the last chapter in the story of the rise and fall of the general property tax on the state level. The role of property taxation in state budgets had been declining steadily since 1900. During the 1930s, state-level property taxation was effectively eliminated as a major category of interest: in 1940 property taxation accounted for less than 10 percent of state revenue (recall Figure 16), and by 1942 the Census of Governments had stopped tracking property taxation in detail — that is, it no longer distinguished between general and special property taxation and instead simply provided values for property taxation in the aggregate. As of 1942, only 6 states relied on property taxation for more than 20 percent of tax revenues.

**A wave of major tax adoptions.** The 1929-1938 period witnessed the largest wave of major tax adoptions in the twentieth century: 32 states adopted general sales taxes, 23 of which were durable and survived the decade; and 20 states adopted durable individual or corporate income taxes, bringing the total number of states using income taxation to 35. Only 7 states exited the 1930s without having income taxation, general sales taxation, or both on the books.

**A radical shift in state tax reliance toward sales taxation.** Nineteenth-century wealth taxation was gone, as were its Progressive-era replacements — the diverse mixture of classified, corporate, and special property taxes. Replacing property taxation was general sales taxation, primarily retail sales taxation. When the new general sales taxes were added to the motor fuel taxes that had been adopted during the 1920s, state governments exited the interwar period having radically shifted their fiscal systems to rely mainly on regressive consumption taxes, rather than the wealth taxation that had dominated the previous generation's fiscal structure. The shift to sales taxation was the most important legacy of state fiscal policy making during the interwar period.

Moreover, this new fiscal orientation would last for decades. The dominance of sales taxation would remain unchallenged until at least the 1970s, with the average state relying on sales taxation for roughly 55 to 60 percent of tax revenues during the 1940s, 1950s, and 1960s.

**An incremental and largely symbolic increase in income tax reliance.** The radical reorientation of state fiscal structures toward sales taxation sat alongside a superficially dramatic — but much less substantive — shift toward income taxation. Income taxation did expand during the 1930s: there were many income tax adoptions (this was the dramatic part), and income tax reliance did increase, reaching roughly 5 percent each for individual and corporate income taxation. However, by the end of the 1940s income taxation had spread widely but not deeply. Most states used income taxation (for example, more states had adopted it than general sales taxation), but sales taxation dominated revenue collections. Income taxation's growth during the twentieth century has been steady and slow rather than explosive: only after decades of incremental increase — not until the last third of the century — would income taxation begin to challenge sales taxation for a co-leadership role in state-level taxation (recall Figure 16).

**The beginning of another reorientation of state spending.** During the 1930s the dominance of transportation spending began to erode. For the next few decades state spending would consist of three major categories that were roughly comparable in size: transportation; social services and income maintenance programs, broadly defined; and especially education. Regarding the latter category, the percentage of revenue for elementary and secondary education coming from state government nearly doubled during the 1930s, rising from 17 percent in 1929 to 31 percent in 1941.<sup>1</sup> This spending shift was closely linked to

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<sup>1</sup> Dataset HSUS, series Bc907.

an acceleration in intergovernmental spending, as many states assumed a larger financial role in the formerly local function of education.

Given the radical nature of the fiscal transformations during the 1930s, it is unfortunate that many of the important works on the early twentieth-century history of state and local taxation do not cover a sufficient time span to reveal this transformation properly.<sup>2</sup> As argued in the previous chapter, this constricted timeframe has influenced the interpretation of Progressive-era reforms — and of income taxation especially — in an unhelpful way. By stopping the story before 1930, the historian is left with a skewed perception of the direction of state fiscal developments, one in which it might seem plausible to envision the trajectory of fiscal change to be represented by either the Progressive-era reform package or the income tax. In fact, the Progressive reforms of classification, separation of sources, and corporate taxation had largely exhausted themselves during the 1920s, and the advance of income taxation was a slow-moving process. To see the true path of change in state-level taxation, one cannot halt the analysis at 1920. The first revolution — a transitional revolution of sorts — was covered in the previous chapter: the rise of a taxing and spending regime centered on auto transportation. The more durable revolution would occur in the 1930s with the widespread adoption of general sales taxation.

This dissertation actually approached the topic in the reverse direction, by starting too late rather than stopping too early, which led to a somewhat different misinterpretation. My initial research on state fiscal history was an investigation of Michigan's adoption of a retail sales tax in 1933. The concerns of that study broadened into the following question: When states made the switch from the general property tax

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<sup>2</sup> Examples include: Yearley 1970, W. Elliot Brownlee 1974, Blackford 1977, Higgens-Evenson 2003, Mehrotra 2003, Laichas 1999, Ellis 1991, and Scala 2000. The exceptions come in three types. (1) Studies of particular states confined to a narrower set of concerns: Bennett S. Stark 1982, Roberts 1990, Stockwell 1939. (2) Broad surveys of governance that devote limited attention to state taxation: Keller 1990, Ballard C. Campbell 1995, and Teaford 2002. (3) Studies of particular fiscal topics, such as property taxation, state debts, or local financing: Benson 1965, Fisher 1996b, Ratchford 1941, and Sbragia 1983.

to modern tax instruments, why did some opt for income taxation (seeming a politically progressive choice) while others opted for sales taxation (seeming a politically conservative choice)? This appeared to represent a major debate, something akin to the grand battle that Ratner had envisioned when describing the history of federal taxation.<sup>3</sup> In the Depression-era choice between sales and income taxation, I seemed to have found a state-level analogue for the federal political battles between the forces of progressivity (the income tax) and regressivity (the tariff of the older era and also the attempts, during the 1920s and 1930s, to adopt general sales taxation on the national level).

This formulation of the issue became increasingly untenable as I broadened my understanding of the topic. In some cases, I looked for a grand battle and could not find one. For example, in Michigan the income tax was proposed several times, but it gained almost no political traction. Even though Michigan turned out to be a state on one end of the continuum — a relatively easy victory for sales taxation — what I observed in Michigan had some broader relevance. Although general sales taxes were unpopular and did generate substantial controversy in some states, they tended to be adopted without the level of outright political strife expected by my naive framing of the issue. Even where there was controversy, it did not fit neatly into a progressive-regressive battlefield. Some proponents of general sales taxation were unexpected (for example, farmers in some states), and the expected opponents (labor and consumers) did not materialize consistently. More fundamentally, the driving motivations behind the adoption of sales taxes often dealt with issues other than those implied by the progressive-regressive framing.

Not only did tax politics during the 1930s fail to fit within a simple progressive-regressive battleground, but the framing of the topic as a *choice* between income and

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<sup>3</sup> Ratner 1942, especially , p. 9 and 511-14. Also see W. Elliot Brownlee 1996, p. 3-36.

sales taxation became partially diminished in importance as my research progressed.

This point has several components:

- Very few states fit into the pure sale tax category. As noted above, income taxation had spread widely by the end of the 1930s. Thus, only 8 states can be said to have made the exclusive sales tax choice (see Table 23), and 4 of those states require substantial qualification, either because its sales tax system shared characteristics with income taxation (West Virginia) or because the states adopted income taxes that were subsequently repealed or overturned (South Dakota, Illinois, and Washington).
- A state's choice of fiscal instruments during the 1930s — whether it ended up with one tax, the other, a hybrid, both, or neither — was a highly idiosyncratic, path-dependent outcome. Most states seriously considered both options, often in a variety of flavors. For those states that ended up on one extreme (only income taxation) or the other (only general sales taxation), even a cursory investigation of the details from particular cases reveals a historical record not readily accommodated by a binary choice. More than a few examples can be cited in which a state appeared to be on a path to adopt one tax, but that effort failed — often narrowly or idiosyncratically — and this setback resulted in the adoption of the other tax, which in turn drained the political energy out of subsequent fiscal reform efforts.
- The practical distinction between the two types of taxation was muddier in practice than one might expect. Some states adopted gross sales (or gross receipts) taxes that included the gross incomes of individuals. At least for individuals (although not for businesses) such systems functioned just like the income taxes in states that used flat rates or, at most, minimally progressive rates.

- The political distinction between sales and income taxes was also muddy. Some of the most influential groups lobbying for fiscal reform during the 1930s supported both taxes. Their primary goals were focused on issues directly tied to property taxation, or to the collapse of that system, rather than the choice between income and sales taxation. In other words, my initial historical framing of 1930s fiscal politics — as a choice between sales and income taxation — was not a matter of primary concern for some of the most influential groups. Along similar lines, ordinary taxpayers or voters tended to oppose all taxes. To say this is not to deny popular preferences: as best we can tell, income taxation was more popular — or less unpopular — than sales taxation. Nonetheless, the predominant factors were these: when either tax was subjected to popular vote, the most common outcome was rejection; and ordinary voters — including organized interest groups with a strong popular basis, such as labor — had little influence over the broad contours, and especially the details, of fiscal policy.

- Most fundamentally, framing 1930s tax politics as a choice between income taxation and general sales taxation places too much emphasis on policy adoption at the expense of policy utilization. When we consider tax reliance rather than mere tax adoption, the overwhelming choice made during the 1930s was for sales taxation. Even in the states that adopted only an income tax, sales taxation dominated the fiscal landscape. In 1942, for example, the average state obtained 57 percent of tax revenues from all types of sales taxation. Among the states that avoided general sales taxes, this figure was 49 percent.

The central dynamic of fiscal politics during the 1930s was not, then, the battle between progressive income taxation and regressive sales taxation — though this was important. Rather, it was the transformation from elite taxation to mass taxation. Superficially, this way of framing the topic looks similar. After all, general sales taxation was mass

taxation, and most income taxes during this period were confined to elites. However, when we place the 1930s in full context — where states tax systems had come from and where they would end up during the second half of the twentieth century — we can see the alignment of the primary fiscal instruments more clearly. On one side stood the past: wealth taxation as represented by the ideals, if not always the practice, of the general property tax. On other side stood both the new present (sales taxation) and the not too distant future (sales taxation plus a type of mass income taxation that was not particularly progressive). Even as federal income taxation was broadened into a mass tax during the postwar period, it would retain a significant progressive cast, both in its use of exemptions and in its rate structure. State income taxation, by contrast, was headed toward very different future: flat or minimally progressive rates, with low exemption levels.

Within this broader context, the 1930s represent the death of wealth taxation and of the progressive potential inherent in that fiscal device. The decline of the general property tax did not occur solely or even primarily during the 1930s. As detailed in previous chapters, the general property tax had been under assault and had become less important with each passing decade. During the 1930s, this process was finalized for all practical purposes. The property tax was removed from most state fiscal systems, and it became somewhat less important for local systems, which increased their reliance on state-administered taxes. Moreover, the surviving local property tax was severed from its historical connections to the general property tax, and the status of the local tax as merely a real estate tax was affirmed. In practice, that transition had been happening gradually over the preceding decades. In the 1930s, the general property tax received the terminal blow as the states left the field and shifted attention to sales and income taxation rather than the general property tax or its immediate descendents (special property taxes).

On the ideological level, the victory over wealth taxation was completed as well. The fiscal choice described here — between wealth taxation and mass taxation — was not usually stated explicitly. Most participants in the fiscal debates of the 1930s agreed on the central goal: reducing realty taxes, while still balancing the budget, was the primary fiscal problem to be solved. The old, often popular, solution to this problem — an invigorated general property tax — was occasionally proposed but never taken seriously by the groups that exerted the greatest influence over fiscal policy. Thus, the 1930s represent not so much an explicit conflict between wealth taxation and its alternatives. To some extent, that battle had been fought directly during the preceding decades. In the 1930s, the victory of the alternatives was not so much fought as it was finalized.

An important question is why income taxation fared so poorly relative to sales taxation during the first half of the twentieth century. In many accounts, sales taxation is characterized as a reluctant choice imposed on the states by the emergency of economic and fiscal collapse. Under this line of interpretation, the general sales tax is said to have been the only instrument capable of yielding sufficient revenues during the depression. This type of argument is a replay of a familiar style of fiscal historiography — namely, a loose analysis in which economic imperatives are assumed to rule out particular kinds of taxes that are said to be impractical, dysfunctional, or otherwise inappropriate for current socioeconomic conditions.<sup>4</sup> Such explanations virtually remove politics from the story, glossing over the political conflict between income and sales taxation and focusing on the wrong question — namely, the supposed economic advantages of sales taxation.

When the assumed economic advantages are probed, they are found to be weak indeed. Income taxation is just as capable as sales taxation of generating sufficient revenues during an economic downturn. Under either system, collecting sufficient revenue is a matter of setting appropriate rates.

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<sup>4</sup> A recent example in this vein is Teaford's history of state governance: Teaford 2002, especially p. 131-38.



To make sense of the victory of sales taxation — in practice more than in policy adoption — one has to ask why the political system refused to set such rates. That is, one has to ask what the political advantages of sales taxation were relative to the alternatives, both income taxation and general property taxation. Such political advantages for sales taxation can be enumerated in the abstract: sales taxes are paid in micro-installments rather than in lumpy quarterly or annual payments; they are implemented so that tax collection is one step removed from most voters; they are partially hidden within other prices; they faced fewer legal hurdles because of their conceptual distance from the uniformity strictures of the general property tax; and, perhaps most important of all, they taxed the masses rather than focusing on the resources of the most affluent and influential groups.

To craft an income tax capable of supporting a more expansive state, one cannot confine the tax to the rich. The tax also has to tap the merely affluent, and this is the political killer. 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 previous two decades as they shifted their fiscal systems away from the general property tax and toward a mix of corporate and elite income taxes. But as the revenue needs of the state expand, an income tax needs to broaden its base to include the affluent, a population that commands large quantities of the primary political resources: economic wherewithal; organization-building skill and manpower; and votes.

Although state legislatures were willing to experiment with personal income taxes as applied to a narrow segment of the population, they were not willing to modify rate structures much beyond where they had stood in 1929 — that is, confined to roughly the top 10 percent of the income distribution. As state governments grew during the 1920s and 1930s, they did not pursue the evolutionary approach of broadening the base of the income and business tax systems that had emerged during the previous few

decades. Such a broadening might, for example, have expanded income taxation from roughly 10 percent of income earners to the top third of earners, using a progressive rate structure. Instead, states embarked on a different course altogether. Elite income taxation continued and even became more widely dispersed among the states; however, the basic structure of state income taxation was not substantially altered during the 1930s. To this existing — and, from a revenue perspective, mostly symbolic — framework states added the heavy reliance on regressive general sales taxation. In this context, the complete abandonment of wealth taxation attains greater resonance.

With such observations in mind, this chapter attempts to put the most dramatic period in state fiscal history in proper context. Such context will be provided in several ways.

- One such context comes from the preceding chapters. The 1930s represent a continuation — indeed, the culmination — of the political movement to eliminate the general property tax. The fiscal world emerging out of the Progressive era was complex, contradictory, and ripe for disillusionment and counter-reaction. Fiscal politics had become more liberal in practice as many interest groups made competing claims on the fisc, and these claims had an impact: state and local tax burdens had risen more during the 1920s than in any previous decade. However, the advocates of this growth had not successfully built a fiscal and ideological framework to support more expansive governance. Ideologically, American fiscal politics continued to be conservative in rhetoric if not always in behavior. As discussed in the previous chapter, calls for retrenchment and for pay-as-you-go financing became more urgent during the late 1920s. Such calls — although framed as concerns about ordinary taxpayers — were wedded to a growing ideological movement favoring new forms of taxation: mass taxation rather than wealth taxation, corporate taxation, or elite income taxation.

- Another context for the widespread adoption of general sales taxation by the American states can be found by examining the international movement toward sales taxation during the 1920s and 1930s, along with the unsuccessful attempts within the United States to adopt general sales taxation on the national level. Even though the federal government did not ultimately adopt a general sales tax, its fiscal politics and policy during the interwar period shared many characteristics with developments on the state level. Specifically, the federal system moved away from its more progressive elements and increasingly relied on various proportional taxes.
- The discussion of the shift to general sales taxation also will be set in the context of older forms of general sales taxation used by some states. This background is useful in illustrating how sales taxes adopted during the 1930s departed from the ideological and practical connections to the older framework provided by the general property tax.
- This chapter also provides results from a quantitative analysis of both the spread of general sales taxes and income taxes during the 1930s and the corresponding changes in tax reliance. These results are presented in summary fashion here, leaving details to Appendix 1.

The last section of this chapter consists of a close examination of the politics of sales and income tax adoptions in various states. This discussion includes the research on Michigan that began my investigation of state fiscal history, along with a synthesis of many other case studies. Although one finds considerable variety in the case studies, several general observations can be made to summarize the important themes.

One of the most important themes relates to the preceding historiographic discussion about the role of the economic crisis in building an explanatory narrative for fiscal

developments during the 1930s. Sales taxes did not simply emerge out of an economic crisis, and they were not merely resorted to out of necessity. They had been promoted on the state level for over a decade by groups with successful track records of exerting influence over fiscal policy making. To describe the movement toward general sales taxation as a reluctant choice imposed on leaders is to ignore this political history. Rather than being merely an external economic force, the Great Depression was a *political opportunity* to overturn the old system. The triumph of sales taxation during 1930s was a political victory for the long-running campaign to eliminate the general property tax and to broaden the taxpaying public. A leading role in the sales tax movement was played by the corporations that had successfully exchanged the threat of a vigorous general property tax for the new array of corporate and income taxes during the Progressive period. Such corporations allied with chambers of commerce, real estate groups, and taxpayer organizations to form an anti-tax movement calling for economy and efficiency in government, as well as a different set of tax instruments — a movement away from property taxation and its direct descendents (special corporate taxes, elite income taxes, and inheritance taxes) and toward general sales taxation.

Just as the economic crisis did not compel sales taxation, it did not preclude income taxation. Income taxes were not inherently unable to respond to the crisis: from economic and administrative standpoints, income taxes could have provided sufficient revenue to meet expenditure needs and reduce realty taxes. Although the political system did frequently voice support for progressive fiscal ideals, the effectiveness of such pronouncements — to the extent that they were genuine and not merely symbolic — 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 main advocates were motivated by various kinds of relief rather than by progressive taxation as such. Farmers, for example, sought relief from realty taxation; urban

workers wanted both unemployment relief and relief from taxes on their homes; and the groups dependent on state funding (such as political leaders, education interests, and government employees) wanted relief from revenue shortfalls. Depending on the timing of political events in a state, the income tax movement could be undermined if realty tax relief and revenue sufficiency were achieved first through some other fiscal policy change.

- The core ideological weakness of the income tax movement stemmed from the cramped vision within which income taxation operated during this period — specifically, its fixation on the rich and the corporate. This narrow vision implied a corollary unwillingness to broaden the tax to include the merely affluent range of the income distribution. Within such confines, income taxation lacked the revenue capacity to offer a viable remedy for the main fiscal problems of the era.

Such considerations help sort out the role of the economic crisis in understanding state fiscal policy during the period. The depression helps a great deal when trying to understand why states abandoned property taxation, why state government spending increased both generally and relative to local spending, and why states adopted so many new tax instruments. However, the depression does not provide very much help for understanding the specific new taxes that were adopted. There was a large causal distance between the economic crisis and the resulting fiscal policy (recall the schematic model of fiscal change in Figure 25). Sitting between those two ends of the story were many factors that had the capacity to influence particular outcomes.

In the case studies, one observes many similar forces at work: economic downturn; a breakdown of the property tax system; a roughly consistent cast characters advocating for one fiscal reform or another; and the salience of property taxation in influencing the fiscal preferences such interest groups. However, when those common dynamics confronted the particulars in a specific state, the outcomes were highly contingent

events, in which existing arrangements and path dependency played important roles. Many factors, some of them not easily gauged in a systematic or quantitative way, could influence outcomes: traditional fiscal cultures in a state or region; the relative balance of power and organizational capacities of the prominent interest groups; differences in institutional arrangements or legal rules; the composition of the legislature, with the conservative-progressive and urban-rural dimensions usually being more telling than party membership; differing constitutional language or judicial makeup; along with various events that can be described as purely idiosyncratic. Even small differences along such dimensions had the capacity to direct states that were otherwise similar along different fiscal trajectories. And initial steps taken down a path often had durable effects, with each step altering the probabilities of subsequent steps.

The importance of path dependency emerges not only in the comparisons of individual case studies, but also in the examination of statistical patterns — both for the adoption of new tax instruments and for their ultimate usage. The quantitative patterns are not overwhelming or decisive; however, some of the strongest patterns that do emerge from the analysis are geographical, and these patterns persist even in the presence of the obvious statistical controls. The most striking geographical pattern concerns the distinctiveness of the Northeast. The region that had abandoned the general property tax most decisively during the Progressive era was the region that most avoided sales taxation during the interwar period. As we shall see, however, this long-term geographic pattern is not easily reduced to a mechanistic explanation in which one generation's fiscal choices directly impacted decisions made in a later era. Instead, the connections are less readily stated but perhaps run more deeply. In this light, geographical patterns appear to be an indicator of a phenomenon similar to path dependency — in effect, geographically rooted traditions of conducting fiscal politics.

In addition to the strong regional pattern, another finding that emerges from the statistical examination of general sales tax adoptions during the 1930s deals with the

issue of partisan control of state government. The relevant factor here was not the difference between the Republican and Democratic parties: neither the statistical analyses nor the political case studies find consistently compelling differences between the parties in their fiscal policy making behavior. However, a state government's likelihood of adopting a general sales tax was considerably increased if the main seats of politic power — the governor's office and the legislature — were controlled by the *same* party. This finding regarding the importance of unified control of government is reinforced by the work of other scholars on this topic. It also makes intuitive sense. Adopting a major new tax is a difficult political feat — especially for general sales taxes, which were even more unpopular than income taxes, as best we can tell. Accomplishing this feat is more likely during obvious economic or fiscal crises — hence the clustering of tax adoptions during the Great Depression. And at least for general sales taxes, it was also more likely when the same party controlled the apparatus of state government. Under more competitive political conditions, these regressive taxes were almost always rejected.

Another prominent theme that emerges from the case studies is the political importance of the form that general sales taxation usually took. In many states, the political success of a general sales tax depended on its being framed in a particular way — namely, as a tax to be borne by consumers. This framing was a distinctive feature of general sales taxation in the United States. It was a key factor in achieving convergence, rather than divergence, of the economic and political groups that exerted the greatest influence over fiscal policy making. Arguments over whether sales taxes could be shifted to consumers were of critical importance. When sales tax campaigns failed, it was usually because retailers became highly mobilized and applied political pressure both directly and through their ability to galvanize wider support among their customers. General consumer agitation over sales taxation was rare, but when it did occur, it was often linked to retailer mobilization. By contrast, when general sales taxes were

formulated and marketed as taxes that could be readily shifted to consumers, such opposition from retailers tended to be weak.

Finally, the political success of general sales taxation was connected to a wider ideological transformation. This transformation was related to the decades-long critique of the general property tax and to the political movement that gained steam during the 1920s as various corporate, propertied, and elite groups campaigned to replace wealth taxation, corporate taxation, and elite income taxation with fiscal devices more to their liking. This movement largely achieved its goals during the 1930s with the widespread adoption and heavy use of general sales taxes framed as consumer taxes. In this political victory, fairness in taxation was defined mainly as fairness among businesses or economic sectors, not necessarily fairness among taxpayers broadly considered. In addition, a just distribution of the tax burden was defined as both wide and proportional, not progressive.

### **The international and federal context**

It might seem that federal and state fiscal systems were moving in opposite directions during the interwar period: on federal level, the income tax was replacing tariffs; on the state level, sales taxes were replacing property and corporate taxes and were rapidly outpacing the new income taxes. Nonetheless, developments on the federal level had much in common with the trends in state-level taxation — specifically, base broadening, the growing use of sales taxation, and a reluctance to extend the principles of tax progressivity from the elite to the merely affluent. Mark Leff has described federal taxation during the 1930s as a dual system, one part a "symbolic showpiece" of taxes levied against the rich and corporations, and the other part a "revenue workhorse" based on tax instruments that were either regressive or, at best, proportional in their



incidence.<sup>5</sup> Examples in the latter category include selective sales taxes on alcohol, motor fuels, cigarettes, and various goods thought to be discretionary; the Agricultural Adjustment Act (AAA) processing taxes; and the Social Security payroll taxes. Leff's characterization can be applied with even more force on the state level: in 1937, for example, even though income taxes were widespread, sales taxation yielded about 8 times as much revenue.

The shift toward sales taxation in the United States paralleled fiscal trends in other comparably developed countries. Following World War I, general sales taxation became prominent in many national fiscal systems. Prior to 1918, general sales taxation was hardly used (as distinguished from forms of sales taxation, such as tariffs, that were targeted to specifically enumerated goods). Most European countries adopted general sales taxation during the 1918-1923 period, and by 1933 it had become important in South America, Canada, and Australia as well.<sup>6</sup>

Two characteristics particularly distinguished general sales taxation in the United States from systems developed in other countries. The first was that it was used by state governments. The more common pattern internationally was for general sales taxation to be applied by national governments. The second distinguishing characteristic of U.S. general sales taxation was its retail orientation. Nearly without exception, general sales taxes in the United States included a retail sales tax component, and in most cases this component was the biggest revenue generator. In other countries, general sales taxes were more often multi-stage taxes or were levied exclusively at higher stages in the distribution chain (for example, on the sales of manufacturers and wholesalers).<sup>7</sup>

The sub-national approach to general sales taxation made the United States distinctive, but this outcome was hardly inevitable when viewed from the perspective of the early

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<sup>5</sup> Leff 1984, p. 2.

<sup>6</sup> Haig and Shoup 1934, p. 5; Jacoby 1938, p. 23.

<sup>7</sup> Haig and Shoup 1934, p. 4; Jacoby 1938, p. 24.

1920s. Many business groups and their conservative Congressional allies were deeply concerned about the federal fiscal system that had emerged out of World War I. Aside from overall tax reduction, their policy goals were straightforward: eliminate the excess profits tax; reduce the top income tax rates; and, more broadly, move the fiscal system to tax devices with a broader base. During the 1920s, the idea of using a federal sales tax to replace both the excess profits tax and the income surtaxes received a fair bit of discussion. Generally, groups representing larger business concerns supported the proposals for a national sales tax, while opposition tended to come from small business groups (especially those linked to marketing or sales), organized labor, and agriculture interests. Before the Great Depression, the campaign for a national sales tax came the closest to realization in 1921, when Congress considered several types of general sales taxes: a general turnover tax, a manufacturers tax, and a net value tax. A proposal by Republican Senator Reed Smoot of Utah gained the most attention. It was attached to the 1921 Revenue Act and was narrowly defeated by a coalition of Democrats and progressive Republicans. Notably, Treasury Secretary Andrew Mellon refused to endorse the 1921 sales tax proposals. Although Mellon favored the goal of base broadening, he nonetheless supported income taxation, even progressive income taxation, both on principle and to forestall more radical attacks on capital.<sup>8</sup>

Although federal sales tax proposals failed in the 1920s, many of the broad goals held by their advocates — lower overall burdens and less progressivity — were achieved. Under Mellon's leadership, significant tax reductions were implemented in the revenue acts of 1921, 1924, 1926, and 1928, lightening the burden for most taxpayers, especially those in the highest income ranges. In particular, the excess profits tax was repealed, the top marginal rates were lowered from 77 percent to 24 percent, and many upper-middle-class households were exempted from the tax altogether. In a sense, federal income

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<sup>8</sup> Thorndike 2003; Oster 1957, p. 21; Jacoby 1938, p. 29. My understanding of efforts to pass federal sales taxes at various times during the two decades after World War I, and of state and federal taxation generally, is based on the following: Ratner 1942; Buehler 1932; Leff 1984; Schwarz 1970; Yearley 1970; Patterson 1969; E. Cary Brown 1956.

taxation was tamed during the 1920s. Shorn of its most progressive elements, the tax became more likely to survive assault from its conservative critics: "when all was said and done, Woodrow Wilson may have made the world safe for democracy, but Andrew Mellon made it safe for income taxation." The compromise forged during the 1920s between Republicans and Democrats, and between the progressive and conservative factions within each party, resulted in a less progressive tax system and in an income tax that was both narrower and flatter — that is, it touched an even smaller share of the population, but the degree of progression within the rate structure was reduced. As such changes were implemented during the 1920s, support for federal sales taxation waned: as usual, a new tax was not valued on its own merits so much as it was seen as a vehicle to replace a more obnoxious tax.<sup>9</sup>

Because of its reliance on the highest income earners, federal revenue was substantially impacted by the depression. As a result, both the Republican administration and the Democratic Congressional leadership (the party had just regained control of Congress) began the 1932 budget cycle with an eye on raising taxes. Treasury Secretary Ogden Mills initiated the process by recommending a diverse set of income, corporate, and excise tax increases — in effect, a budget balancing proposal using existing fiscal instruments. However, in hearings on the Treasury plan, proposals were advanced for a significantly broadened income tax by the Chamber of Commerce, the National Association of Manufacturers (NAM), the American Petroleum Institute, the American Hotel Association, the Hearst newspaper chain, and other business groups. NAM representative James A. Emery, for example, argued that broadening the tax base would "arouse the tax consciousness of the individual citizen." Such business leaders also lobbied for an even broader tax: a general sales tax. The economist Thomas S. Adams was asked to report to the House Ways and Means Committee on the Canadian sales tax. He did not endorse it, but he did review it favorably. Congressional conservatives in both parties favored sales taxation for the obvious reason: they wanted to spread the

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<sup>9</sup> Quotation from Thorndike 2003. Also see Oster 1957, p. 21-22.

tax burden more widely so that the budget could be balanced without reverting to the highly progressive income tax rate structures that had existed during World War I and that had been successfully trimmed during the 1920s.<sup>10</sup>

The plan that emerged from the House Ways and Means Committee included increases in many existing taxes, along with a manufacturer's excise tax of 2.25 percent on all items except food. The sales tax was judged to have good prospects. It had strong international credentials and wide support among influential business groups and the political, journalistic, and economic establishment. More fundamentally, its characteristics were similar to other taxes that would be adopted by the federal government during the 1930s. The plan won a nearly unanimous vote from the committee and was supported by the leadership of both parties, which was unusual because the Democratic Party had a history of opposing sales taxes. In addition, Treasury Secretary Ogden Mills supported the committee's plan. He emphasized the goal of a balanced budget, not so much because he thought it was achievable, but to discourage social spending and to keep income tax rates as low as possible.<sup>11</sup>

Support for the sales tax by the Democratic leadership turned out to be a strategic blunder, because it prompted a vigorous revolt from rank-and-file Democratic legislators. Opposition to the plan from progressives in both parties grew quickly, and constituent reaction was negative as well, spurring large volumes of mail to the capitol, and illustrating that public opinion could be mobilized around a tax incidence issue, provided that political leaders spoke directly to such matters. As Leff writes, "the federal sales tax had become a symbol of Hoover's supposed insensitivity to suffering. Only someone with stronger humanitarian credentials might have successfully championed a revenue scheme so clearly favorable to the rich." In a dramatic and chaotic debate that lasted a few days, the House rejected the sales tax by a large margin and instead voted to increase income and estate taxes, in the process deploying much "soak the rich"

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<sup>10</sup> Quotation from Thorndike 2003; also see Schwarz 1970, p. 109-10.

<sup>11</sup> Schwarz 1970, p. 106, 116-17; Thorndike 2003.

rhetoric. Voting on the sales tax was divided along partisan, regional, and urban-rural lines, with Southern Democrats and progressive Republicans being the staunchest opponents.<sup>12</sup>

A common explanation for the failure of national sales taxation in 1932 hinges on the notion of intergovernmental comity. Both Keller and Schwarz advance this idea. Keller, for example, argues that "perhaps the best explanation is the quid pro quo inherent in federalism. Once the federal commitment to an income tax was made, the sales tax became the appropriate trade-off to the states." Even though some Congressmen did offer rationalizations to this effect, the rhetoric was opportunistic. Many examples that can be cited to dispel the idea that federalism gravitates toward an equilibrium in which different levels of government monopolize their own tax bases. Aside from the tariff, which is reserved by the Constitution solely for the nation government, none of the main taxes in American history have been monopolized in this way: not the general property tax, not income taxes, and not sales taxation broadly defined. Similarly, the most important specific sales taxes used during the twentieth century (on motor fuels, alcohol, and tobacco) were deployed by multiple government levels. In fact, in 1932, the same year that federal legislators supposedly shunned general sales taxation out of deference to the states, the federal government invaded the states' fiscal turf by adopting a gasoline tax.<sup>13</sup>

A more compelling explanation for the failure of the 1932 sales tax is provided directly by Treasury Secretary Mills, who emphasized business opposition, particularly from manufacturers and retailers. The federal sales tax was not framed in a consistent fashion. In some contexts, it was endorsed because it would be borne by ordinary consumers, thus sensitizing them to the costs of government and curbing electoral pressures behind fiscal expansion. However, in other contexts, the tax was described as

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<sup>12</sup> Leff 1984, p. 50-4, quotation from p. 54; Schwarz 1970, p. 120-22; and Thorndike 2003.

<sup>13</sup> Keller 1990, p. 221; Leff 1984, p. 22, 54; Schwarz 1970, 129, 214.

a business tax, one that manufacturers would absorb. In this context, many manufacturers and retailers wondered whether they would feel the brunt.<sup>14</sup>

The so-called sales tax rebellion led to the drafting of a new bill, ultimately the Revenue Act of 1932, that was similar to the original proposal from the Treasury Department. The revenue boost from the bill was expected to be \$1.1 billion, nearly half of it from higher collections from various excises on products such as lubricating oil, malt syrup, tires, toilet articles, jewelry, motor vehicles, radio and phonograph equipment, refrigerators, sporting goods, firearms, candy, soft drinks, and electricity. As Thorndike writes, the "taxed goods were disparate, their selection dependent on a variety of factors, including the political influence — or lack thereof — associated with an industry."<sup>15</sup>

Tax policy during the New Deal built upon and extended the fiscal trends of the preceding decade. The federal government relied heavily on a diverse set of specific sales taxes. In addition, in the area of income taxation broadly defined, New Deal policy charted new territory with the Social Security payroll taxes, which used a proportional rate structure and an income framework that was doubly regressive: it taxed only earned income, and only the first \$3000.<sup>16</sup> During the 1930s, sales and payroll taxes accounted for 47 to 65 percent of federal revenue, depending on the year. When selecting items for selective sales taxation, policy makers followed the lead set by the 1932 Revenue Bill: items of wide use but not first necessity (with some notable exceptions); industries that could weather the adverse effects of the tax; and goods that offered a favorable relationship between revenue potential and administrative complications or political resistance. The immediate rationale for the payroll tax financing mechanism was the argument by Roosevelt and Treasury Secretary Henry Morgenthau that the private-insurance framing of Social Security was important for its

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<sup>14</sup> Schwarz 1970, p. 128-29, 139.

<sup>15</sup> Thorndike 2003.

<sup>16</sup> The Social Security wage base was initially \$3000 and has risen over time, reaching \$106,800 in 2009 (see [www.ssa.gov](http://www.ssa.gov)).

political durability. This framing is a pure fiction, however, because the program functions like any other pay-as-you-go government program, transferring payments from current taxpayers to current beneficiaries. In that light, it makes more sense to explain the financing choices of the New Deal for what they were: a continuation of the general pattern during the interwar period, on both the state and federal levels, of closing off the obvious financing alternative — namely an expansion of the progressive income tax system.<sup>17</sup>

The major themes of New Deal taxation are useful in providing context for the developments on the state level during the same period:

**Underlying fiscal conservatism.** Even amid major reorientations of government purposes, an underlying fiscal conservatism was pervasive and influential. The economic crisis lent an added unpopularity to the usual opposition to taxation, and budget balancing remained part of the political and economic orthodoxy. Relying on a strategy of conciliation to encourage recovery, especially during the first New Deal, Roosevelt was reluctant to turn popular wrath against the rich and, more specifically, to tax businesses.<sup>18</sup>

**Reliance on indirect sales taxes.** In this environment of heightened tax sensitivity, the federal government relied heavily on indirect taxes, especially selective sales taxes that were shielded from direct view by being tucked into the price structure. Examples include tariffs, the Agricultural Adjustment Act (AAA) processing taxes, and various internal excises on alcohol, motor fuel, tobacco, and selected manufactured items. In political disputes over excise taxes, the taxed industries typically played the role of rallying to the defense of their silent consumers. Such businesses were opportunistic in their use of tax incidence rhetoric, sometimes expressing seemingly progressive concerns about burdens on ordinary customers, and at other times implying that their

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<sup>17</sup> Leff 1984, p. 19, 30, 46.

<sup>18</sup> Leff 1984, p. 13-14, 19.

businesses would be made unprofitable as a result of the tax burdens that they would have to bear.

The AAA processing taxes were an especially perverse form of taxation from a tax incidence perspective: regressive sales taxes with the explicit goal of raising the price of necessities like bread, pork, and cotton cloth. The taxes were assessed on the first domestic processing of a taxed item (for example, the milling of flour). They were applied to the staple products for which the AAA disbursed benefit payments to curtail production, the goal being to boost commodity prices to the fair exchange values as determined by 1900-1914 prices. Until they were struck down by the Supreme Court in 1936, the AAA processing taxes accounted for about an eighth of federal tax revenue.

Unlike the AAA taxes, which were applied to everyday staples, many uses of specific sales taxation during the 1930s were framed as luxury taxes. "Luxury" did not mean consumption goods purchased only by the rich; rather, it meant goods that had wide consumption (hence revenue potential) and that were deemed non-essential. Cigarette taxes are illustrative. They were not raised from 1919 to 1940; however, this was because they were already so high — 6 cents per pack, and a pack typically sold for 15 cents, or as little as 10 cents during the depression. At this rate, a pack-a-day smoker paid more in federal cigarette taxes than a family of four would have paid in income taxes on an annual income of \$4000. In spite of such perversities, public opinion, based on the limited data we have, tended to favor "luxury" taxes over more direct levies such as property and income taxation. As Leff observes, such attitudes:

laid the groundwork for a great deal of political mischief. To mobilize against the tangible immediate burdens of income and property taxes was easy; to recognize and resist the cumulative effects of hidden taxes on daily purchases required a level of sophistication that few possessed. This kind of 'painless' taxation on the installment plan was insidious. ... Political leaders could have educated the public on these issues. They did not. Public opinion leaders such as newspapers showed far more appreciation for the tribulations of the rich, whereas congressmen



tended to identify with the problems of the affluent and vocal 'middle class' from which they came.<sup>19</sup>

**Privileged treatment of the affluent middle-class.** The existing income tax structure was geared to very high incomes and thus lacked revenue potential without significant changes. For example, 80 percent of income tax revenue in the late 1920s came from taxable incomes of \$50,000 or higher. In order to increase its revenue potential, the income tax required structural reform. Such reform would not necessarily entail the creation of a full-blown mass income tax; in fact, very little income resides in the lower half of an income distribution (recall Appendix 4). But it would involve a broadening of the tax beyond the rich to include the merely affluent — a highly articulate part of the voting public, because of its combination of economic, organizational, and electoral resources. During the 1930s and continuing to the present day, a consistent theme in American fiscal rhetoric and policy making has been the sloppy definition of the middle class. When asked, most Americans place themselves in the middle class or the middle income group, even those who are among the top quarter of the distribution. Such conceptions of what it meant to be middle class — and the resulting sympathy for all but the super-rich — placed severe limits on fiscal reform. Although there were voices on the intellectual left — liberal economists, journalists, and public interest lobbies — calling for a broader application of progressive income taxation, the political system was not willing to extend ability-to-pay to any significant degree. A study of fiscal policy during World War II, for example, found that the greatest slack in the U.S. tax system was in the upper-middle income range. As we shall see, this ideological restraint on federal income taxation was even more powerful on the state level.<sup>20</sup>

**Symbolic use of soak-the-rich rhetoric.** The soak-the-rich tradition in fiscal politics is a long one, and it received its fair share of support in New Deal rhetoric, especially in Congress. Roosevelt occasionally exploited popular outrage, but Congress, rather than

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<sup>19</sup> Leff 1984, p. 18; also see p. 17, 23-24, 38, and 43.

<sup>20</sup> Leff 1984, 3-4, 94-96, 100-106, 288.

the administration, took the lead in speaking for more progressive variants of tax reform. In spite of the occasional use of such rhetoric, however, the share of tax collections drawn from potential sources of progressive taxation (mainly personal and corporate income taxes) was considerably lower in the New Deal than in World War I, the 1920s, or succeeding decades. In short, the New Deal tax system was less progressive when judged against comparable eras.<sup>21</sup>

### **The early history of general sales taxation by the states**

Before turning to a discussion of some of the precursors for state-level general sales taxation, it is helpful to cover a few technical matters.

The form of sales taxation that grew rapidly in many countries during the interwar period was distinctive in historical perspective. Before the 1920s, both in the United States and in other similarly developed countries, sales taxation usually took the form of specific sales taxes. What characterized modern sales taxation was its generality, the fact that it was applied to broad categories of sales transactions rather than to enumerated goods. Nonetheless, general sales taxes in the United States have been general only in a limited sense. They have never, for example, aimed at an ideal comparable to the nineteenth-century general property tax. Rather, their main focus has been on *the sale tangible personal property to ultimate consumers*. "General" sales taxes of this variety have several prominent exclusions: payments for housing, both rental and owner-occupied; purchases of many services (medical, dental, legal, financial, utility, and sometimes transportation); the sale of investments (for example, realty and intangibles assets); and the sale of insurance. By way of comparison, a gross income tax on all business transactions is estimated to have a tax base roughly 10 times larger than that of a retail sales tax.<sup>22</sup>

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<sup>21</sup> Leff 1984, p. 2-4, 89-90, 293.

<sup>22</sup> Jacoby 1938, p. 103 and 348.

The most common — and quantitatively the most important — type of general sales taxation to emerge in the United States during the 1930s was retail sales taxation. Among the types of general sales taxation, retail sales taxation is the most narrow: it is imposed only at the retail stage of consumption; it is applied primarily to the sales of tangible property; in some cases, it includes sales of enumerated services, such as amusements, hotels and lodging, utilities, transportation, sometime professional services; and in practice, it was often narrowed to exclude sales of items that were inputs to further production processes. In short, retail sales taxes typically were implemented as consumer taxes. A handful of states adopted more general types of sales taxation. Such taxes travelled under various names and are not always precisely distinguished. A loose typology might include four types of general sales taxes, starting with the narrowest:

- **Retail sales taxes** focus on sales of tangible property at the retail stage.
- **Multi-stage taxes** (or turnover taxes) also focus on sales of tangible property but include retail and other stages in the distribution chain, notably sales by manufacturing and extractive industries.
- **Gross receipts taxes** apply to the gross sales of all (or nearly all) business operations. They are similar to a business income tax in that the tax is applied to nearly all types of business activity; however, it is oriented toward the gross volume of transactions, whereas the typical business income tax includes a determination of net income — that is, gross receipts minus the expenses incurred to generate that revenue.
- **Gross income taxes** are the most general type of sales tax. They are applied to income from any source — including, in some cases, the income of individuals or

households. Concerning the taxation of individuals, a loose parallelism exists with income taxation, with the pertinent distinction being between gross and net income. At least in theory, a gross income tax would tax apply to individuals in a uniform way: a single rate applied to all income. In practice, gross income taxes usually included personal exemptions that were similar to the exemptions found in most state income tax systems. As a result, the main functional difference between gross income taxes and individual income taxes was in the rate structure: gross income taxes apply a flat rate to all income beyond the allowed exemption, whereas individual income taxes usually — though not always — used a progressive rate structure that increased with taxable income.

Although it is useful to understand the distinctions among the various types of general sales taxes, the simpler fact was that retail sales taxation dominated the field. For example, among the 23 states that adopted enduring general sales tax systems during the 1930s (see Table 24), 16 were confined to retail sales taxation. Moreover, even among the states that used more general forms of sales taxation (multi-stage, gross receipts, or gross income), the retail component typically generated the bulk of the revenue, due to the way that rates were set.<sup>23</sup>

Before the 1930s a handful of states had used general sales tax systems. Although these early sales tax systems varied considerably, they also had some common characteristics — characteristics that distinguish them from general sales taxation adopted during the 1930s.

Perhaps the most important difference was in legislative and political intent. The early sales taxes were viewed primarily as business taxes rather than consumer taxes. As we will see, this distinction between business taxes and consumer taxes is blurry and was used opportunistically during debates over sales taxation. If the audience was a group of

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<sup>23</sup> Haig and Shoup 1934, p. 2; Jacoby 1938, p. 11-12, 104.

manufacturers or retailers, for example, sales tax advocates often stressed the ease with which sales taxes could be shifted, arguing that such levies would be readily transferred through the price system, to be borne by ultimate consumers. If the audience was a wider groups of voters or consumers, the direct payers of the tax would be emphasized: a business tax rather than a consumer tax.

Early sales taxes were also distinctive in having a tight connection to the general property tax. As argued throughout this dissertation, the major tax instruments adopted during the late nineteenth and early twentieth centuries were almost all conceived as replacement revenues for what was perceived to be an overburdened property tax system. In this broad sense, general sales taxes adopted during the 1930s were no different: one of their primary purposes was to introduce new revenue to replace or reduce state reliance on property taxes, to increase the state's ability to aid local governments, and ultimately to reduce the fiscal pressure on their property tax systems. However, the sales taxes adopted before the 1930s were linked to the general property even more closely. They were not only envisioned as a new (replacement) revenue source; they were framed both politically and legislatively as proxies for the general property tax. Specifically, the base of gross sales was viewed as a pragmatic way to approximate the property value of inventories held by merchants and manufacturers and thus to bring this wealth under the purview of state taxation.

The difference in legislative intent usually carried over into a difference in form. Because they were intended as a substitute for the general property tax, the early state sales taxes were usually multi-stage taxes, levied at multiple points in the distribution chain, but especially where significant property value resided — in other words, where inventories (property wealth) tended to be large. In addition, because they were intended to tap economic resources that were escaping the regular property tax system, the early general sales taxes typically had low rates. In this sense, they were one of many examples of tax classification: shifting property wealth out of the main property

tax and into a special system with rates low enough to encourage honest reporting of assets.

The early sales taxes had another similarity with their broader fiscal context: like the main tax of their era, the general property tax, they were state taxes that relied heavily on a local, or sometimes a joint state-local, administrative structure. And like the general property tax, the early sales taxes were collected in annual lump-sum payments, rather than the more frequent payment systems that would be adopted in the 1930s.

The net effect of these characteristics — property tax origins, multi-stage, low rates, non-centralized administration — was low revenue. Unlike the high-rate retail sales taxes of the 1930s, which produced large volumes of revenue and quickly dominated their fiscal era, the early general sales taxes had a limited impact on state budgets, especially during the nineteenth century.

This nineteenth-century pattern of general sales taxation was used most notably by Pennsylvania, Virginia, and Delaware. Such taxes emerged out of lump-sum occupation or license taxes levied for the privilege of conducting business in the state, and they were adopted in lieu of ad valorem general property taxes on merchants' stocks. Pennsylvania's system, for example, began as a merchant license tax. In 1830 the single fee was converted to a graduated set of lump-sum fees, based on gross sales. Over time the system was modified and became more complex. In 1899 the system was consolidated, rationalized, and converted to a gross sales tax. At the same time, merchants' stocks were exempted from the general property tax — an application of the idea of tax classification.<sup>24</sup>

A different form of early general sales taxation can be seen in Connecticut's gross receipts tax. It was adopted in 1921 as a supplement to the state's corporate income tax

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<sup>24</sup> Jacoby 1938, p. 29-33.

system: corporations paid the income tax, and unincorporated businesses paid the gross receipts tax. Gross receipts was used as the basis partly for reasons of accounting simplicity.<sup>25</sup>

Another set of early sales tax examples can be seen in the states of West Virginia, Mississippi, and temporarily Georgia. These were multi-stage gross sales (or gross income) taxes that imposed varying rates on different economic sectors. Over time these tax systems were expanded, both through base broadening and rate increases. The examples of West Virginia and Mississippi are noteworthy because their early sales taxes made a direct transition to the modern form of sales taxation during the 1930s, when high-rate retail sales taxes were added to the existing systems.

West Virginia's general sales tax was adopted in connection with the battle over the federal sales tax in 1920-1921. It emerged out of a desire to lower property taxes and to force natural resource industries (coal, petroleum, timber, natural gas) to bear a larger share of state tax burdens. Legislative attempts were made to tax the resource industries directly, but these efforts failed. The compromise that emerged out of this process was a general sales tax, imposed at varying rates on most types of business activity. The rate on extractive industries was roughly twice as high as the rates on other sectors. As a result, this sector accounted for 46 percent of the system's revenue in the first year. In 1925, the system was revamped into a multi-stage tax with higher rates. This reform effort included an implicit intention of taxing businesses in closer proportion to their net income; however, critics pointed out the difficulty of achieving this goal using gross sales as the basis. In 1933, the state added a high-rate retail tax to its system, along with a 2 percent intangibles tax — ironically pursuing both a modern tax instrument and an instrument from the previous era's fiscal reform agenda. West Virginia was also unique in continuing throughout the 1930s to rely heavily on the portion of its general sales tax that was levied at higher levels in the distribution chain,

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<sup>25</sup> Jacoby 1938, p. 49-52.

notably on extractive industries. As of 1936, for example, the retail component was only 11 percent of total sales tax revenues in the state.<sup>26</sup>

Mississippi followed a roughly similar trajectory, but with a compressed timeframe. Although the state had used a minor gross sales tax on merchants during the nineteenth century, the tax had been dropped in 1870 when Mississippi adopted a general property tax system. In 1930 the state adopted a multi-stage, multi-rate gross sales tax like West Virginia's. The tax applied to manufacturers, wholesalers, extractive industries, public utilities, and other businesses, including retailers. In addition, the rate structure penalized chain retailers, imposing a rate twice as high as the regular merchant rate. In some accounts, Mississippi's 1930 tax is described as the first modern general sales tax, because it included a retail component. However, the rates, including those imposed on retailers, were low, and the legislation had a small revenue impact. It is probably more accurate to describe the legislation adopted in 1932 as the first modern general sales tax. In that year the rate schedule was significantly increased. For example, the basic retail rate, which had been 0.25 percent, was set at 2 percent. In 1934, the tax system was made permanent (it had been adopted on a temporary basis). In 1936, the law was modified again to require that retailers "collect" the tax from consumers. Thus, a business tax on retailers was transformed into a consumer tax, at least in terms of legislative intent, and retailers were legally removed from the wider system of business taxation, becoming mere agents who collected taxes from consumers. The revenue structure of Mississippi's general sales tax was more typical than West Virginia's: the retail component dominated revenue collections. As of 1936, for example, the retail tax accounted for 78 percent of sales tax revenue.<sup>27</sup>

Without this background, the sales tax revolution of the 1930s can seem less remarkable. When considered solely as levies on consumption, sales taxation not only had a long history but made nearly equal gains on the state level during the 1920s,

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<sup>26</sup> Jacoby 1938, p. 52-61.

<sup>27</sup> Jacoby 1938, p. 61-65.



primarily through taxes on motor fuels. Only when considered in conjunction with the history of the general property tax does the fundamental conceptual shift embodied in the sales tax movement of the 1930s become apparent.

To an economist concerned primarily with tax incidence, the early sales taxes represent clear precursors of the retail sales taxes enacted during the 1930s. From a political standpoint, however, the early sales taxes were distinctive. In impetus and legislative intent, they were business taxes. They used an indirect method (gross sales) and the logic of tax classification to bring merchants' and manufacturers' inventories to the tax rolls. In 1917, writing one of the first articles on sales taxation to be found in the National Tax Association's major publications, Edmund Bodden advocated a tax on the gross sales of merchants and manufacturers. He argued that the guesswork and evasion rampant in current efforts to tax such wealth could be eliminated if gross sales — used as a proxy for the property value of inventories — became the base on which the taxes were levied.<sup>28</sup>

At least on the state level, then, sales taxation before 1930 was closely connected to the effort to solve the "property tax problem" by various schemes of tax classification: inventories were segregated into their own property class and their value was taxed via the proxy, however rough, of gross sales. But that is only half of the story. As one commentator wrote in 1921, "sober-headed business men are sometimes intoxicated by a sudden vision of utopia." Sales taxes, because they promised to shift the burden of taxation to a wider population base, were thought by some to be the means to this utopia. A popular slogan of those who lobbied for federal sales taxation during the early 1920s, for example, was "the sales tax at one per cent and no other tax on business." Similar campaigns were waged on the state level during the 1930s.<sup>29</sup>

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<sup>28</sup> Bodden 1917

<sup>29</sup> Reed Smoot, speech before the Senate (1921), which is reproduced in Beman 1921, p. 91-102. Quotations from Thomas S. Adams 1920, which is reproduced in Beman 1921, p. 170; and Fairchild 1921, p. 273.

While the underlying goal of such a political movement seems obvious on its face, sales tax advocates used the common fiscal language of the time, including the ability-to-pay standard that was more typically associated with corporate, estate, and progressive income taxes. One line of argument was that the price system effectively converted every tax into a tax on consumers. When arguing for his federal sales tax in 1921, for example, Senator Reed Smoot claimed that the excess profits tax had caused a general price increase, borne entirely by consumers, of 23 per cent. To the extent that such arguments were convincing, they undermined the necessity of thinking about tax incidence: if every tax were borne ultimately by consumers, many of the distinctions between corporate income taxation and general sales taxation evaporated, and the choice could be reduced to considerations of administrative and political ease. A more common rhetorical move was to shift the concept of ability to pay away from progressivity and toward proportionality. The logic of progressivity assumes that ability to pay increases more rapidly than income; consequently, a wealthy individual should pay a higher effective tax rate than a poor person. Under a logic of proportionality, however, ability to pay and income change at equal rates. This ideological shift from progressivity to proportionality was further buttressed by the argument that all income is *eventually* spent on consumption, thus justifying proportional taxation using consumption as a basis.

As the record for the 1920s indicates, however, these arguments did not fully convince. The effort to enact a federal sales tax failed and, aside from the exception of West Virginia, general sales taxation did not gain traction on the state level. Although many disputed the arguments of sales tax advocates on the merits, such debates about ability to pay, progressivity, and proportionality probably played a much smaller role in the defeat of sales tax proposals than the opposition that came from within business itself.<sup>30</sup>

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<sup>30</sup> For a labor position, see Gompers 1921, which is reproduced in Beman 1921, p. 159-61.

To understand business opposition one must recall the two themes already noted about early sales taxation: first, the attempt to remedy a deficiency in the general property tax by reaching certain forms of wealth through an alternate route (this was relevant on state and local levels); and second, the political drive by conservative and pro-business groups to shift part of the tax burden away from themselves and toward a wider population (this was expressed at all government levels). Although these two themes can be separated for analysis, in practice the second theme was influenced by the first. Those who wanted to spread the tax burden widely could have suggested any number of sales taxation schemes. The two most common plans, however, were a manufacturers' tax and a multi-stage (or turnover) tax. Both proposals concentrated on that part of the distribution network where substantial property value existed, in the form of large inventories. Thus, even though their reasons for advocating sales taxation were different, the two lines of thought — one focused on base broadening and the other on bringing new forms of property to state and local tax rolls — tended to produce similar sales tax proposals.

That, however, was a source of weakness in the sales tax movement. If property tax reformers could see in sales taxation a way to bring a previously untapped form of business wealth to the rolls, so could some business people — notwithstanding the reassurances that sales taxes could be easily shifted to consumers. Those businesses at later points in the distribution chain — especially wholesalers and retailers — wondered whether sales taxes would come out of their pockets; they, after all, were "consumers" in relation to manufacturers. Furthermore, multi-stage taxes were thought to give a competitive advantage to vertically integrated firms because a good produced by several specialized businesses would be taxed at a higher effective rate than the same good produced by a single, integrated firm. For many businesses, sales taxation seemed neither desirable from a self-interested perspective, nor fair from an objective perspective.<sup>31</sup>

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<sup>31</sup> For a study that concurred with such business fears, see National Industrial Conference Board 1929.

The early history of sales taxation, then, includes two central points. On the state level, early sales taxes were conceived as taxes on business wealth: the gross sales of businesses were used as a proxy for the property value embodied in inventories; and the sales tax represented an effort to bring wealth that ought to have been part of the general property tax to the tax rolls through an alternate route (tax classification). Second, perhaps because of this connection with the general property tax, sales taxes were usually proposed in forms that divided business sectors, and this division was a source of political weakness.<sup>32</sup>

## **Overviews of tax adoptions and reliance during the 1930s**

### **Quantitative overview**

The 1929-1938 period experienced the largest wave of major tax adoptions in the twentieth century. Enduring general sales taxes — meaning that they survived at least until the end of the 1930s — were adopted by 23 states. Another 7 states adopted general sales taxes that subsequently expired, were repealed, or were held unconstitutional, and 2 states had general sales taxes that were adopted by the legislature and then repealed by voters before becoming effective. The number of income tax adoptions was roughly comparable: 20 states adopted individual or corporate income taxes that survived the decade, bringing the total number of states using income taxation to 35. Several others made unsuccessful attempts to adopt income taxes: for example, Illinois and Washington adopted income taxes that were declared unconstitutional by state supreme courts. Only 7 states exited the 1930s without income taxation, general sales taxation, or both: Florida, Maine, Nebraska, New

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<sup>32</sup> Two particularly revealing primary sources on the 1932 battle over a federal sales tax support the last point: [unknown author] 1932; and National Automobile Chamber of Commerce Taxation Committee to Hudson Motor Company President Roy D. Chapin, May 9, 1932, Box 22, Roy D. Chapin Collection, Michigan Historical Collections, Bentley Historical Library, University of Michigan.

Jersey, Nevada, Rhode Island, and Texas (see Tables 23, 24, 25, and 26). And some of those 7 states came very close to adopting one tax or both.<sup>33</sup>

Sales taxation experienced a burst not only of policy adoptions, but also a radical increase in usage — a new fiscal orientation for state governments that would last for decades. Throughout the 1940s, 1950s, and 1960s, the average state would rely on sales taxation (both general and specific) for 55 to 60 percent of tax revenue. The shift to general sales taxation occurred within a narrow timeframe, mainly the 1933-1935 period. Starting in 1936, there was a noticeable loss of momentum for general sales taxation. A few more tax adoptions would occur, but these were counterbalanced by various repeals. As a result, the net number of states with general sales taxes did not increase during the last half of the 1930s. The expansion of income taxation during the decade was quite different: almost as many new tax adoptions occurred, but usage did now grow at the same rate. Whereas sales taxation experienced radical growth in a confined period, income taxation's growth trajectory during the twentieth century has been gradual, punctuated only by a wave of policy adoptions in the 1930s and a smaller one in the 1960s.<sup>34</sup>

Even though general sales taxation seemingly swept the nation during the 1930s, there were nonetheless significant differences among states. Most notable was the Northeast's avoidance of sales taxation: no states from this region adopted a general sales tax before the 1940s, and Northeastern states also relied less heavily on motor fuel taxation. The combined result of these two factors yields one of the strongest statistical patterns for the decade: 43 percent of the variation in overall sales tax reliance in 1937 can be accounted for by Census region alone. Even after controlling for various socioeconomic and political variables, region retains a statistically significant association with overall sales tax reliance (example control variables include income per

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<sup>33</sup> Also see Roy G. Blakey and Johnson 1942, p. 3-7; Roy G. Blakey and Blakey 1945, p. 1-8; Jacoby 1938, p. 71.

<sup>34</sup> Jacoby 1938, p. 74.

capita; the percentage of the population engaged in manufacturing; urbanization; control of state government by the Democratic or Republican parties; and a measure of the state's reliance on income, corporate, or estate taxes during the prior decade).

When we look for statistical patterns to distinguish states based on whether they adopted sales taxes, we do not observe particularly compelling relationships — at least when using the obvious and most readily available predictor variables. Economic development indicators, such as the percentage of the population engaged in manufacturing, tend to have moderately negative associations with sales tax adoptions. A moderately negative association also exists with a measure of reliance on income, corporate, or estate taxes during the prior decade.

For income tax adoptions and income tax reliance, the statistical patterns are even weaker. Pre-1940 income tax adoptions are moderately correlated with lower levels of manufacturing, and this relationship is also expressed in regional form, with the Northeast and Midwest being somewhat less likely to adopt income taxes. Income tax reliance during the 1930s has virtually no statistical correlates, at least among the obvious socioeconomic and political candidates.

For general sales adoptions — which represented the most radical and important fiscal transformation of the period — a noteworthy exception to these generally weak findings can be found by turning attention to the issue of partisan control of state government. The key factor here does not turn out to be differences between the Democratic and Republican parties. Indeed, the political case studies to be discussed in this chapter will illustrate the irrelevance, fluidity, and unpredictability of fiscal outcomes with respect to party labels even within individual states, let alone across the entire nation. Rather, the critical factor was unified control of state government — that is, control of both the legislature and the governor's office by the same party.<sup>35</sup> During

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<sup>35</sup> Where control of a legislature is understood as holding more than 50 percent of the legislative seats.

the 1930s, sales tax adoptions and sales tax reliance exhibited strong positive associations with unified control over state government, regardless of the political party. More precisely, sales tax adoptions not only tended to occur at moments of unified control, but also within states that exhibited a more consistent track record of unified control during the era. Such patterns in general sales tax adoptions carried over directly into usage. For example, a simple regression using only two types of predictor variables (region and measures of unified control of government) accounted for about 60 percent of the variation in overall sales tax reliance in 1937.

The association between unified control and general sales taxation make sense. Adopting a major new tax is a difficult political feat, and state governments rarely get over the hurdle. This hurdle is more likely to be cleared during times of evident crisis — hence the heavy clustering of major twentieth-century tax adoptions during the Great Depression. The odds were increased considerably for general sales taxes wherever the general crisis was accompanied by unified control of state government. As we shall see in the case studies, general sales taxation was unpopular: almost everywhere it was subjected to a popular test, it failed. In more competitive political environments, these regressive taxes were almost always rejected.

Such quantitative relationships are explored further in Appendix 1, but we can generalize by saying that an examination of the quantitative correlates of tax adoptions and tax reliance during this period has three general findings: (1) fairly weak, and never more than moderate, associations with the most common and readily available political and socioeconomic indicators; (2) a few strong regional patterns that persist even in the presence of other statistical controls; and (3) a noteworthy relationship between unified control of state government and general sales taxation, both adoptions and usage.

The most striking findings — the regional pattern and the association with unified control — were for the new tax instrument (general sales taxation) rather than the older

tax devices (property taxation and even income taxation). This pattern for the 1930s is similar to what one observes for the early twentieth century, when the Progressive-era fiscal reforms were implemented. In fact, for the entire century, the tax reliance variable with the strongest statistical correlates is property tax reliance during the early twentieth century: in particular, the Northeast had very low levels of property tax reliance. By the 1930s, however, the distinctiveness of the Northeast with regard to property taxation was largely eliminated. In place of the former regional pattern, however, was another one — specifically, the very low levels of sales tax reliance in the same region. The suggestive general pattern is as follows: a new tax instrument begins to be adopted; its usage (although not necessarily its policy adoption pattern) has a strong regional association that withstands controls from other political or socioeconomic indicators; and this regional association weakens over time as the new tax policy spreads.

Such regional patterns do not add up to an explanation as such. They do, however, suggest certain themes for understanding. David Mayhew's *Placing Parties in American Politics* provides some guidance. It is a wide-ranging study of electoral politics in the states, with a special focus on the structural distinction between states having strong traditional party organizations that rely heavily on patronage and states having weaker organizations and supplying candidates for office mainly through an uncontrolled primary process. A useful insight emerging from Mayhew's historical and quantitative examination is the following assertion: "There exist geographically rooted traditions of conducting electoral politics, however and whenever they came about and whoever their bearers have been."<sup>36</sup>

This observation of persistent political patterns within states is reinforced in my own research on Michigan's 1933 retail sales tax adoption and in my work synthesizing the findings many other cases studies of tax adoptions during the 1930s. What one observes

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<sup>36</sup> Mayhew 1986, p. 236.



from such an investigation is similar forces at work across all of the states: economic crisis; breakdown of the property tax system; and a roughly consistent cast characters advocating for one fiscal reform or another. But when these common dynamics confronted the particulars in a specific state, the outcome was highly contingent and unpredictable. Traditional fiscal cultures, existing institutional arrangements, small variations in the relative power of various interest groups, different constitutional language or judicial makeup — such factors are not readily captured in a quantitative analysis. Moreover, even small differences along such dimensions — or perhaps seemingly random bumps on the expected path — had the capacity to direct states that were otherwise quite similar along very different fiscal trajectories. And initial steps taken down one path or another often had durable effects, with each fiscal step altering the probabilities of subsequent steps.

Geographical patterns, then, are perhaps an indicator — a somewhat arbitrary and perhaps misapplied indicator — of a deeper phenomenon: path dependency. States in the Northeast region, for example, were distinctive in shifting away from property taxation early in the twentieth century. This regional distinctiveness again found expression during the 1930s, with the Northeast avoiding general sales taxation to a degree not readily dismissed either as a chance occurrence or as a mere epiphenomenon of some other obvious socioeconomic or political indicator. One possibility is that states in the Northeast entered the depression in a better fiscal position because of their prior movement away from property taxation and thus felt the general property tax crisis less keenly. However, this explanation goes only so far. By the end of the 1920s the region's distinctiveness in property tax reliance had faded; in addition, property tax reliance during the 1920s is not an especially strong predictor of sales tax adoption and usage during the 1930s. Thus, the correlation between the Northeast's distinctive abandonment of property taxation in the early twentieth century and its distinctive avoidance of general sales taxation in the 1930s lies not so much in a direct mechanism linking the prior fiscal decisions to the latter decisions. Rather, it

appears to lie in other more durable characteristics — in effect, traditions of conducting fiscal politics that, for one reason or another, exhibit geographic patterns.

### **Political overview**

Due to the severity of the economic downturn, the spread of general sales taxation during the 1930s assumes an air of inevitability in many historical accounts. In addition, the adoption of general sales taxes by many European countries in the aftermath of World War I and the adoption of sales taxes by the American states during an economic depression suggests an apparent relationship between economic crisis and sales taxation. Many contemporary analyses and historical accounts have commented on these connections. All too often, however, such observations evolve into an interpretation emphasizing the inevitability of particular outcomes. Sales taxation is described as a fiscal reform imposed on states by economic and fiscal imperatives. Expert, popular, and political opinion may have opposed sales taxes as a matter of principle, but the crisis left little room for such considerations. Teaford's account of fiscal developments during 1930s illustrates this narrative style. The obvious fiscal alternative for states — the income tax — is described as impractical. Sales taxation was reluctantly chosen because it was the only tax capable of yielding sufficient revenues during a depression: "The states needed money, and no levy could produce revenues in such quantity and so quickly as the sales tax. ... Many reluctant lawmakers turned to the flawed impost simply because there was no other satisfactory alternative."<sup>37</sup>

The economic and fiscal assumptions underlying such inevitability narratives are not robust. Income taxation is not inherently impractical during economic downturns. Jacoby's contemporary examination of sales taxation during the Great Depression disputes the common assumption that sales taxes are somehow more depression-proof

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<sup>37</sup> Quotation from Teaford 2002, p. 137 (also see p. 135). For related matters see Haig and Shoup 1934, p. 8 and 102; Jacoby 1938, p. 21; and Oster 1957, p. 33.

than income taxes. His economic analysis of states using sales taxes during the 1930s found that "retail dollar sales are not an especially stable tax base, and *fluctuated more widely than did national income* during the period 1929-1937." He also found that general sales taxes did not have an advantage over income taxes when comparing administrative costs and revenue collections.<sup>38</sup> During a depression, both sales and incomes decline substantially. In the abstract, neither form of taxation has a decisive edge when judged by their revenue potential during economic downturns. Under either system, collecting sufficient revenue is a matter of setting the appropriate rate structure.

The apparent revenue advantage of retail sales taxation during the Great Depression did not hinge on economic factors so much as on political and ideological factors. To describe the movement toward general sales taxation as a reluctant choice imposed on political leaders is to ignore the political history. Sales taxes were not simply resorted to out of necessity; they had been actively promoted on the state level for more than a decade by able and well-resourced interest groups with a successful track record of exerting influence over fiscal policy. And income taxes were not inherently unable to fill the revenue gap opened up by economic and fiscal crisis; they were unable to fill this gap because of the strict political and ideological limitations within which they travelled during the interwar period — specifically, a low-rate tax applied only to the rich.

A description of the spread of general sales taxation that focuses on the economic and fiscal emergency is of limited usefulness because it addresses the wrong issue — specifically, the supposed inherent economic advantages of sales taxation. To say this is not to dismiss the importance of the economic crisis. The depression helps to explain, for example, why so many substantial fiscal changes occurred during the 1930s. But it is important to distinguish the timing of policy adoptions from the larger forces propelling them. Major fiscal reorientation and growth often occurs during crises, partly because

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<sup>38</sup> Jacoby 1938, p. 352 (my emphasis); see also p. 351.

the existing fiscal system breaks down and must be altered, and partly because the crisis atmosphere reduces political, ideological, and administrative resistance to change.<sup>39</sup> Thus, the economic depression helps a great deal when trying to understand why the property tax was almost completely abandoned on the state level during the 1930s, why states government spending increased both generally and relative to local spending, and why state governments adopted so many new tax instruments. However, it does not provide very much leverage for understanding the specific new taxes that were chosen. In fact, the common theme in crisis-centered explanations for the spread of sales taxation is the absence of political choice: the general sales tax is forced on a reluctant political system. In fact, the range of possibilities was large, both in how states could have responded to the fiscal emergency and even in how they actually did respond.

The economic crisis, then, provides only the first part of a more complete story of fiscal change during the 1930s. There was a large causal distance between the economic crisis and the resulting fiscal policy (recall the schematic model of fiscal change in Figure 25). Sitting between these two ends of the story were many factors that had the capacity to influence a particular outcome: balance of power among various political and economic groups, ideological constraints, the existing fiscal system, institutional arrangements, and constitutional or statutory differences. Perhaps the most striking general finding that emerges from a survey of tax politics during the 1930s is the sheer diversity of outcomes and of paths taken to those outcomes. A hint of that diversity is illustrated by Table 23, which organizes the states according to whether they adopted a general sales tax, an individual income tax, both, or neither during the period before 1940. Within any of those four major groups one observes significant variation in the political, legislative, and other events leading to tax adoptions, along with additional variety in the precise form of tax adopted. In addition, the historical record is full of near misses, reversals, and substantial policy revisions following initial policy adoption. A general impression resulting from a review of the existing case studies is that major tax adoptions are highly

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<sup>39</sup> For an exploration of this theme on the federal level, see Higgs 1987.

contingent events, in which existing arrangements and path dependency play important roles. Small variations in relative balance of power or organizational capacity, differences in institutional arrangements or legal rules, existing legislative or supreme court makeup, and various events that can be described as purely idiosyncratic were capable of turning a state down one path or another.<sup>40</sup>

Although the primary fiscal fact on the state and local level was the collapse of the property tax system, this collapse did not operate merely on an economic level; it also had political, administrative, and ideological dimensions. The economic downturn reduced incomes generally and incomes from property ownership specifically. This pressure on incomes led to soaring property tax delinquency rates, which commonly reached 25 percent or more at the peak of the crisis in the early 1930s. State governments found their own revenues severely reduced because of the general income decline. For those states that still relied heavily on property taxes, tax delinquency compounded the revenue shortfall. The collapse of property tax collections affected all states, even those that no longer relied heavily on the tax. As local revenue systems came under strain, political pressure rose for state governments to increase aid to local governments to keep schools open, continue municipal services, maintain local roads, and provide relief for the unemployed.<sup>41</sup>

Under a casual description, property owners simply found themselves unable to pay their property tax bills because of their reduced incomes; however, it is useful to consider the dynamic of property tax delinquency more carefully. The economic downturn meant that property owners had less income to meet their various obligations. In most cases, delinquent property owners were not completely without income; rather, they prioritized other obligations over their property tax bills. Part of the explanation for such prioritization is obvious: necessities such as food, for example, would naturally take precedence over taxes. But to understand the extent of property

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<sup>40</sup> For a sampling of such diversity see Haig and Shoup 1934, p. 16-17 and Part II generally.

<sup>41</sup> Jacoby 1938, p. 75.

tax delinquency, two other considerations are helpful. Economic depression meant not only reduced income but also substantial reductions in realty values. The incentive to pay property tax bills decreases considerably for an owner holding a property in which the owner has little or no equity stake. In addition, the collapse of realty values — and of the market for real estate — undermined the government's usual administrative responses to tax delinquency. Under normal circumstances, governments responded to tax delinquency through the mechanism of a tax sale. A tax title would be awarded to a bidder willing to pay the delinquent taxes and penalties. The tax title granted the owner the right to collect future penalties from the property holder. A redemption period then followed, typically lasting about two years. During that time the property holder could attempt to clear the property title by paying the back taxes and penalties. If the property holder failed, the owner of the tax title could then use the tax title as the basis to sue for full title to the property. This tax sale mechanism had worked well during the 1920s, spawning a lively and profitable market in tax titles — a market dominated by private corporations specializing in the field. For the investors, the appeal was in collecting the tax penalties, not necessarily ownership of the realty. In most cases, property owners were successful in paying the back taxes. However, with the radical drop in realty values during the depression and with the glut of tax titles on the market, governments had difficulty finding buyers for tax titles. Like the broader property tax system, the usual mechanism for responding to tax delinquency was broken. In this context, the incentives for property owners to prioritize their property tax obligations were eroded.<sup>42</sup>

Having been under political and ideological assault for decades, the property tax faced intense opposition as the depression worsened. A concrete manifestation of this opposition was a wave of limitations or reductions imposed on the property tax system. In some instances, explicit statutory or constitutional limits were imposed on property tax rates, with the limits usually set to compel state and local governments to reduce

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<sup>42</sup> Beito 1989, p. 8.

property tax levies, in some cases substantially. Another form of property tax reduction was the homestead exemption. Even in the absence such explicit mechanisms, state governments faced strong political pressure not only to reduce their own property tax levies, if any, but to take steps to help local governments reduce theirs.<sup>43</sup>

In some cases, the political opposition to property taxation led to outright tax protests and even organized taxpayer resistance. Taxpayer organizations deployed rhetoric emphasizing the plight of common property owners, and they did garner popular support. However, the organizations were typically led and funded by major property owners and by real estate interests. As just one example, the main taxpayer group on the national level was the American Taxpayers' League, formerly the American Bankers' League. Such groups also waged campaigns against income and estate taxation; however, the primary target of taxpayer movements during the 1930s was the property tax.<sup>44</sup>

Among revenue devices, the property tax has been particularly vulnerable to political crisis. David Lowery's work on the 1970s property tax revolts are useful for understanding the 1930s. In public opinion data, taxes are salient for voters, but they tend to be poorly understood. Property taxes are especially salient because of their lumpiness and because of their attachment to the primary wealth base of most households: a home and perhaps a small business or rental property. Opinion data also indicate that voters value both low taxes and simplicity (or certainty) in the tax system — even to the point of embracing simple systems that contradict either objective self-interest (if only the respondent were better informed) or professed notions of fairness. As Lowery writes, "at the heart of the complexity complaint is a fear that someone is using the complex tax system for his own advantage." Elected and appointed officials must negotiate the tricky situation presented by the highly visible, complex, and poorly understood property tax. Facing an ill-informed public that simultaneously prefers lower

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<sup>43</sup> Jacoby 1938, p. 76-77; Teaford 2002, p. 131-32.

<sup>44</sup> Leff 1984, p. 14.

taxes and more government services, these officials attempt several tactics to reduce the political heat: differential assessment (responding to the loudest complaints of the well-represented and well-organized); underassessment on the local level (shifting the blame for higher taxes to the state-mandated equalization process); and the use of appointed assessors (creating a distance between elected officials and rising property assessments). Although such strategies may work temporarily to lessen the political difficulties of property taxation, they ultimately undermine the credibility of the tax in the eyes of the public. When the pressures reach an extreme level, some kind of property tax revolt occurs, as it did during both the 1930s and the 1970s. The outcome from such rebellions is often quite different than what voters had hoped for. Ordinary voters may not have realized that they were already doing relatively well within the imperfect property tax system. Campaigns for equitable assessment practices and limits on tax rates often have the consequence of forcing middle-class and affluent homeowners to bear a larger share of the overall burden. In other cases, the detailed policy outcomes are controlled by elites and well-connected interest groups, and the results end up hurting (or not appreciably helping) average property owners. The ensuing government cuts and the unexpected outcomes then lead to even more disillusionment and frustration — intensifying the incentives that set the whole process in motion in the first place.<sup>45</sup>

Just as the opposition to property taxation had a long track record, political support for general sales taxation did not appear suddenly in response to the economic crisis. During the 1920s sales taxation was a favored fiscal device of individuals and groups who opposed the various types of elite and corporate taxation that had expanded during the first few decades of the century. In this light, the property tax crisis was a political opportunity. The triumph of sales taxation during 1930s was a political victory for a pair of long-running campaigns, one to eliminate the general property tax and the other to broaden the tax base.

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<sup>45</sup> Lowery 1985, p. 78; see also p. 84.



The political preferences of the wider population are not readily discerned; however, it seems safe to say that sales taxation came to dominate state revenue systems in spite of its unpopularity. General sales taxation was rarely subjected to a popular vote, but it was rejected the few times that it was. Although there appears to have been wide support, at least among owners, for property tax reduction, sales taxation was probably not the popular choice as a replacement revenue device: income taxation and even the old idea of a vigorous general property tax probably had greater popular resonance than general sales taxation. Indeed, based on any objective calculation, sales taxation should not be a popular choice. For example, Neil Jacoby computed how a general sales tax would translate into equivalent income tax rates on families with incomes of \$1000 and \$1 million. For a sales tax on all consumer expenditures, the equivalent income tax would be 16 to 20 times higher for the family with the lower income. For a sales tax limited to tangible merchandise (a closer approximation of the typical state retail sales tax), the equivalent income tax would be 60 times higher.<sup>46</sup>

Even in the face of sometimes stiff opposition — both to taxes generally and to sales taxes in particular — the movement for general sales taxation was quite successful during the 1930s. At least at the broadest level, accounting for the success of this fiscal reform is not mysterious. If we return to Daniel Rodgers' observations concerning the placement of the Progressive era within the broader phenomenon of the rise of modern, weak-party, issue-focused politics, we can ask once again the fundamental question: *Who wins at pluralist politics?* As usual, the well organized. A contemporary analysis by economists Robert M. Haig and Carl Shoup of the wave of sales tax adoptions in the early 1930s summarized the political outcome in those terms: "At no time within the past few decades has a new tax spread so widely among the states in the face of such opposition and backed by proponents so well organized." Even though many of the sales taxes adopted in the early 1930s were technically temporary

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<sup>46</sup> Jacoby 1938, p. 350-51.

measures, Haig and Shoup's evaluation of the tax's well-organized proponents and mostly disorganized opponents lead them to predict, correctly, that general sales taxation would prove to be an enduring fiscal reform and that the obvious alternative — income taxation — would fail to keep pace, for the same political reasons. Notice that these contemporary observers, whose analysis included cases studies from nearly 30 states, did not mischaracterize the spread of general sales taxation as a phenomenon best explained by the supposed inherent economic advantages of one tax over another or by narrowly economic imperatives. Rather, they identified this line of fiscal reform as belonging to a political movement — one that achieved fruition within the context of economic crisis, but one that nonetheless was fundamentally political and ideological in its driving motivations.<sup>47</sup>

The typical supporters and opponents of general sales taxation during the 1930s are not particularly surprising in light of the preceding discussion. As just noted, sales taxation was not a popular reform. More generally, ordinary voters and consumers expressed very few direct preferences concerning, and exerted very little direct influence over, the formation of policy. In this sense, the 1930s were no exception to the pattern observed in earlier historical periods. Among the organized groups that did exert significant influence over fiscal policy, one generalization that emerges from the cases studies is the salience of property taxation in influencing the fiscal preferences of interest groups on matters such as general sales taxation. The real estate industry — and urban real estate interests in particular, such as realtors, real estate boards, realty dealers, and commercial property owners — were among the most energetic and consistent supporters of general sales taxation. Contemporary political observers consistently emphasized the political significance of such groups. Although details did vary from one state to another, large property owners generally were important proponents of sales taxation. Industries such as rail, power, mining, public utilities, and, to a lesser degree, manufacturing were fairly consistent in their advocacy of sales taxation — both in the

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<sup>47</sup> Haig and Shoup 1934, p. 16; also see p. 25 and Chapter I generally.

1930s and in the earlier and broader campaigns during the 1920s against the more progressive components of federal and state taxation. The political activity of such groups tended not to rely on the mass tactics deployed, for example, by retailers; rather, their lobbying usually operated behind the scenes, using the influential channels that many such groups had established with state legislatures and administrative agencies through their decades of experience with the Progressive-era framework of corporate taxation. Major newspapers were also usually supportive of general sales taxation — a position that was consistent with their tendency to concur with urban real estate interests and that serves as an indicator of the broad thrust of centrist, establishment opinion on the issue.<sup>48</sup>

A group's desire to reduce realty taxation was a primary motivator in the sales tax issue. Another key consideration was revenue sufficiency. Advocacy groups representing the major state and local spending areas tended to be influential proponents of general sales taxation. Education interests were especially important: teachers, educational associations, the school supply industry, and, in some cases, parent organizations. Unlike the realty groups, which opposed high property taxes and had active preferences for sales taxation, education groups tended to favor most revenue devices, whether they were general sales taxes or income taxes. In some cases, education groups distanced themselves from sales taxation as such; nonetheless, they usually ended up campaigning for sales taxation as vigorously as other groups. In fact, in several states general sales taxes were adopted as direct outgrowths of movements to increase state funding for common schools, and in some cases a portion of sales tax revenue was dedicated to such funding. The groups closely associated with the other major area of state spending — highways — did not devote as much energy to the sales tax issue. Having already secured dedicated gasoline tax revenues for highway purposes, their main fiscal agenda was to preserve the existing allocation rule and to oppose political campaigns that occasionally cropped up to divert motor fuel taxes to the general fund.

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<sup>48</sup> Haig and Shoup 1934, p. 19-22; Jacoby 1938, p. 79.

Perhaps the most important representatives for the issue of revenue sufficiency were the state's political leaders — legislators, state administrative heads, and especially governors. The following pattern recurs frequently in the case studies: a governor, regardless of political party, would campaign on a platform emphasizing retrenchment, tax reduction, and ability-to-pay principles seemingly more conducive to income taxation than sales taxation; however, once in office, such governors became the primary advocates not only for enhanced revenue devices, but also for general sales taxes in particular — even to the point of explicitly rejecting income taxes that they had formerly endorsed, in the abstract, over sales taxation.

Consistent opposition to general sales taxation did not materialize from one quarter where it might have been expected — organized labor. Haig and Shoup, for example, noted that labor groups were not particularly active on this issue. Although labor groups were certainly aware of the tax incidence implications of general sales taxation, a mitigating factor was the need for sufficient revenue to fund unemployment relief and public sector jobs that would fill the gap left by the contraction of private employment.<sup>49</sup> Illustrating a tendency typical of many ostensibly progressive interest groups over the course of the twentieth century, labor groups tended to focus on the need for sufficient funds for their programs of interest rather than on the more general matter of progressive taxation.

Rather than coming from organized labor or other groups with a popular basis, opposition to sales taxation typically came from retail merchants. When political movements to adopt general sales taxes failed, it was usually because of effective and organized retailer opposition. Moreover, when the political opposition to a sales tax proposal did manage to gain a popular foothold among general consumers, this opposition often traced its roots to retailer mobilization. Although retailer opposition to

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<sup>49</sup> Haig and Shoup 1934, p. 19.

sales taxes did point out the regressive incidence of such taxes, the focus of retailer political rhetoric was on the adverse effects on their business sector — the sector responsible for directly paying the new taxes. At the same time, retailers were like other small businesses in being property owners or, at a minimum, renters of commercial property. As a result, their direct fiscal interests were mixed, partly driven by concerns about high property tax burdens and partly by the fear of bearing the new replacement tax.<sup>50</sup>

Similarly conflicted stances can be seen in another numerically substantial group — farmers. Historically, farmers had been strongly oriented toward reducing realty taxes, toward a vigorous general property tax that tapped intangible wealth, and toward income taxation. The ranking of fiscal instruments by farmers during the 1930s probably ran just as it had during the Progressive era: personalty, income, sales, and then realty. By the 1930s, however, personalty taxation was a withered part of the property tax framework — both in practice and ideologically. It had not disappeared entirely, and there were several noteworthy calls for invigorated property tax systems. However, as a practical matter, farmers often found themselves forced to choose the lesser of evils. In some of the case studies, there was a pronounced urban-rural split over tax issues, especially when political events led toward any kind of explicit choice between sales taxes and income taxes; however, usually fiscal choices were not put forth in such a direct fashion, if at all. Farmers had a track record of opposition to federal sales taxation, but they were often supporters — or, at a minimum, they were not consistent opponents — of state sales taxation. The key difference between the federal and state levels was that state sales taxes were linked to property tax replacement. Farmers generally preferred income over sales taxation, but they preferred realty tax relief even more. When sales taxes were successfully framed as relief for property taxation, farmers either supported sales taxes or at least did not provide widespread and vigorous

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<sup>50</sup> Haig and Shoup 1934, p. 16-18 and 23.

opposition. By contrast, when sales tax campaigns emphasized funding for urban unemployment relief efforts, opposition from farmers tended to be stronger.<sup>51</sup>

An understanding of fiscal politics during the 1930s is aided by considering not only the typical supporters and opponents of sales taxes, but also the typical characteristics of the taxes. The preceding discussion of the main groups that supported general sales taxation, either enthusiastically or grudgingly, points in the direction of one important characteristic. General sales taxes were often earmarked — sometimes by statute and always by political framing — to specific spending agendas, the most prominent being property tax reduction, either directly by eliminating the state government's reliance on the property tax, or indirectly by increasing state aid to local governments, especially in the form of school funding. Politically successful income tax adoptions during the 1930s shared this trait as well.

Another common characteristic was the adoption of general sales taxes as temporary revenue measures. For example, among the original sales tax laws of 30 states, 18 contained expiration dates, but only 6 were actually allowed to expire. As of 1938, Jacoby reckoned that two-thirds of state sales taxes had become permanent: among 24 sales taxes, only 7 had expiration dates. The framing of general sales taxes as temporary measures can be dismissed as mere marketing; however, it often served a practical political purpose. Institutional rules in many states allowed the legislature to pass emergency legislation that was immune from challenge at referendum. Such legislation typically had to achieve a super-majority of some kind, and it had to be temporary. Thus, a common route for sales tax legislation was to avoid the risk of a referendum by being adopted as a temporary revenue measure. The risk that a legislatively enacted sales tax would be overturned at referendum was no idle concern: during the 1930s,

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<sup>51</sup> Haig and Shoup 1934, p. 19-20; Jacoby 1938, p. 78-9.

three sales taxes were subjected to a referendum, and in every instance the result was popular rejection.<sup>52</sup>

Not only did most general sales taxes survive their initial temporary status, but the broader trend during the 1930s was toward expansion and extension of sales tax systems — a trend that would continue into the 1940s and beyond. This growth involved several types of policy changes: increasing tax rates; expanding the tax base, notably through use taxes (an application of a sales tax to a good purchased in a different state but used in the taxing state); and tightening administrative systems (for example, more frequent and complete tax returns; stricter record keeping requirements; summary legal remedies to deal with tax delinquency; better coordination among government agencies; and quasi-judicial powers for tax administrators to deal with delinquency and audits). Only two states narrowed their sales tax systems appreciably during the 1930s, and only three introduced major new exemptions (primarily for food in Alabama, California, and Ohio).<sup>53</sup>

The most common form for general sales taxation in the American states was as a retail sales tax, with few exemptions for tangible goods. As noted above, a handful of states adopted more general forms of sales taxation, but even in those states the retail component dominated (with rare exceptions). Examples of exemptions include the following: gasoline (a widespread exemption because states taxed it with a separate sales tax); sales to intermediate processors, such as manufacturers (widespread); sales to governments for public projects (common); purchases by non profits (fairly common); and purchases of food or clothing (not common). The exemption of essential food and clothing from general sales tax systems was not typical in the 1930s: under a generous reckoning, only about one-third of states provided some form of exemption along such lines. Although food consumes a small portion of the typical household budget in our own economy, the exemption of food from sales taxes during the 1930s was no small

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<sup>52</sup> Jacoby 1938, p. 85-6.

<sup>53</sup> Jacoby 1938, p. 80-3.

matter. By one estimate, such exemptions reduced revenue collections by about a quarter.<sup>54</sup>

From the perspective of the early twenty-first century, when most Americans are fully accustomed to retail sales taxation, it is easy to pay insufficient attention to the form that general sales taxation took. However, this form was distinctive, both from a historical perspective and from an international perspective. Like sales tax systems in other countries, earlier forms of general sales taxation by the states had operated either on multiple levels or on higher levels in the distribution chain. This approach was consistent with the impetus behind such taxes, namely as proxies for the property value of merchants, wholesalers, and manufacturers. The most common rationale for the distinctive approach taken in the 1930s was the concern about pyramiding — that is, the concern that a multi-level tax would unfairly disadvantage goods that travelled through several intermediaries (taxed at each stage) and thus provide a competitive advantage to vertically integrated businesses. Such concerns had been common, for example, in the discussion of both federal and state turnover taxes in the 1920s. Equally important was that taxes on multiple levels (or on higher levels) usually confronted a bigger political hurdle. Such taxes risked alienating more economic sectors with organized political arms. Whereas a retail sales tax had to be framed to ease the concerns of the direct taxpayers (the retail sector), a turnover tax or a manufacturer tax typically invited opposition not only from the direct payers (manufacturers, wholesalers, and so forth), but also opposition from their consumers (again, retailers), who worried that the tax would be shifted to them.

The most common and effective route to political success for general sales taxation during the 1930s was as a *consumer tax* — one that could be readily shifted via prices from businesses to ultimate purchasers. Taxes framed in this way raised the least amount of *effective* political opposition, because businesses and propertied groups

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<sup>54</sup> Roy G. Blakey and Blakey 1945, p. 8; Jacoby 1938, p. 104 and 110.



united around this kind of general sales tax more readily than around other types of sales taxes or, for that matter, other types of taxation. In part, the framing of general sales taxes as consumer taxes was strategic. Average consumers and voters were not well-organized and usually exerted limited influence over tax policy. Thus, a tax aimed at them was smart politics, especially in the arenas where most fiscal decisions were made — in legislative committee meetings, in internal communications among government officials, and in discussions between lobbying groups and various government officials.

However, the impetus behind consumer taxation was more than strategic; it also had an ideological component. The political movement for general sales taxation was a logical extension of the movement during the 1920s to spread tax burdens more widely and to trim the most progressive elements from the tax structure. As government burdens grew rapidly during the 1910s and 1920s, the progressive aspects of the tax system — corporate, estate, and elite income taxes — were viewed with increasing concern by business groups and affluent individuals. The campaign to reduce such progressivity was fairly successful on the federal level during the 1920s, and this approach was maintained, even extended, in New Deal fiscal policy. From a broader perspective, this dynamic was an old one — namely, the concerns among affluent groups about the fiscal dangers inherent in democratic politics. Such concerns led naturally to the argument that the fiscal system needed to include elements of mass taxation in order to sharpen tax consciousness in the wider population and thus restrain voters from demanding ever more government services.

Previous chapters detailed how similar concerns during the late nineteenth and early twentieth centuries drove some of the fiscal reforms that pushed state fiscal systems away from the ideal of a vigorous general property tax — in effect, a wealth tax — and toward alternative fiscal devices that could win wide political acceptance while still promising better manageability for such affluent groups. During the 1930s a roughly similar line of reform was taken yet another step, almost completing burying the

remaining state-level property tax and taking major steps toward shifting the fiscal balance away from progressivity and toward proportionality.

The political and ideological motivations to frame general sales taxation as a consumer tax were not simply theoretical; they took concrete form as statutory and administrative provisions mandating that retail sales taxes be shifted to consumers. Even though direct tax payments were made by retailers, sales tax legislation typically declared that retailers were operating as agents of the government in collecting taxes from consumers. Such legislative pronouncements marked a sharp contrast with the privilege and licensing tradition out of which many older types of business taxation had emerged. It was also common for states to forbid retailers from advertising that they were absorbing the tax on behalf of their customers. In addition to general legislative pronouncements concerning ultimate tax liability, retail sales taxation used several statutory or administrative provisions to create mechanisms for the explicit shifting of taxes to consumers.<sup>55</sup>

- Separate invoicing of the sales tax. Many states mandated, either by statute or administrative rule, that sales taxes be detailed as separate items in transactions, rather than being folded inconspicuously into the prices of goods.
- Schedules (or breakdowns). These were simple tables, often displayed at checkout counters, listing the amount of tax owed for purchases across various price ranges. Schedules performed, albeit in a more visible fashion, the function of a modern cash register, multiplying a purchase by the tax rate and rounding to the nearest cent.
- Fractional cent devices. These took various forms, such as punch cards, small coins, or coupons, and were often used as a supplement to schedules. The

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<sup>55</sup> Haig and Shoup 1934, p. 29-32, 104-5, 526; Stockwell 1939, p. 213.

devices allowed for a more precise payment of sales taxes, allowing the retailer and the consumer to complete transactions with denominations less than a penny.

- Coupon books. In states that used coupons (for example, Ohio), the government sold the books to retailers, effectively collecting sales taxes in advance. Retailers then sold the coupon books to customers, who could use coupons to pay taxes as they made purchases.

Although the more cumbersome devices faded over time, the early years of retail sales taxation are filled with explicit tax-shifting examples such as these. They offer a concrete illustration of the political and ideological emphasis placed on the framing of general sales taxes as consumer taxes.

### **Case studies**

The remainder of this chapter explores several case studies that illustrate the breakdown of the property tax system during the 1930s and the adoption of replacement taxes, especially general sales taxes. The discussion is based on my own research on the adoption of a retail sales tax in Michigan, along with a synthesis of existing historiography and of the cases studies conducted by contemporary observers and analysts, notably an extensive research study by a team coordinated by economists Robert Haig and Carl Shoup in 1933-1934, at the height of the sales tax adoption wave, and another analysis later in the decade by Neil Jacoby. The presentation of the case studies is organized with an eye toward a some general themes and patterns:

- A case study focusing on tax resistance in Chicago. It provides an illustration of the utter collapse of the general property tax system and of some of the political responses to that problem.

- A set of brief case studies illustrating the influence of prior fiscal devices on tax choices made during the 1930s: states in the Northeast, none of which adopted enduring sales taxes; states outside the Northeast that relied heavily on their existing taxes to avoid general sales taxation (Virginia, Wisconsin, and Texas); and states that converted their older sales tax systems into modern systems that included high-rate retail taxes (West Virginia and Mississippi).
- Some examples emphasizing the themes of contingency and path-dependency. In addition, these studies illustrate the fundamental political limitations of income taxation in the fiscal and ideological context of the 1930s. This discussion focuses on an interesting group of states — Oregon, Washington, and South Dakota — that exhibited similar characteristics on several fronts but that nonetheless ended up with rather different outcomes. A few minor cases studies then build on such themes: Oklahoma, Utah, and Kentucky.
- A case study that might be said to illustrate the hybrid outcome. Several states adopted both income taxation and general sales taxation, in some instances explicitly as a political compromise. The discussion focuses on California, allowing us to continue the narrative of a state that has been important in several chapters of this dissertation. Brief examples from Arizona and North Carolina will supplement that discussion.
- A set of cases studies from states in which sales taxation achieved a more decisive victory. The heart of this discussion will be my own research on Michigan's adoption of a retail sales tax in 1933. Observations from a few other states are also included — notably a cluster of states from the industrial Midwest that experienced outcomes roughly similar to Michigan's, suggesting another regional pattern in the politics of tax adoptions during the 1930s.

### **The collapse of the general property tax: Chicago**

Chicago's tax resistance movement during the early 1930s provides a useful example for understanding the breakdown of the general property tax and the political responses to it. The discussion here is based mainly on David Beito's *Taxpayers in Revolt: Tax Resistance During the Great Depression*, with additional context provided by Bennett Stark's dissertation on the fiscal history of Illinois.<sup>56</sup> This case is also revealing within the context of the larger arguments advanced in this dissertation. Tax resistance in Chicago was a response to the fiscal burdens of the property tax system under the severe economic circumstances of the 1930s, but the movement's reform plan actually appealed to a very old ideal — that of a truly general property tax. The failure of this movement sheds additional light of the fundamental political liability of this ideal.

The 1920s were a period of significant growth for sub-national government, and because the local sector was still notably larger than the state sector, the increment of growth was the largest on the local level. Using either taxes or government revenue as a share of gross domestic product, the local sector collected roughly 2 percent more of GDP in 1929 than it had in 1920 (for example, local revenue represented roughly 6 percent of GDP in 1929). State government also grew, but it started at a much lower level, roughly one-third the size of the local government in 1920. As a result, the additional government burden experienced by taxpayers during the 1920s was experienced most powerfully on the local level, in the form of property taxation. This extra burden was reflected, for example, in the average tax rate per dollar of assessed valuation, which rose from 20 mills in 1918 to 27 mills in 1928. As discussed in previous chapters, the local property tax was becoming a de facto real estate tax, both as a result of the evasion of intangible wealth and because of Progressive-era fiscal reforms such as tax classification, which carved out various types of non-realty into their own tax

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<sup>56</sup> Beito 1989; Bennett S. Stark 1982.

systems, often with lower rates than the remaining general property tax. Although Illinois had not embraced the fiscal reforms of the previous generation as fully as other states, the broader trends nonetheless applied to Chicago: by the end of the 1920s realty owners faced considerably higher tax rates than they had experienced at the beginning of the decade.<sup>57</sup>

When economic depression hit, not only did incomes dropped precipitously, but this drop occurred more rapidly than corresponding adjustments in government revenue demands. The result was a radical increase in tax burdens relative to income — by one measure, nearly doubling from 1929 (11.6 percent) to 1931 (21.1 percent). Tax delinquency increased dramatically. For example, median tax delinquency in cities over 50,000 population rose from 10.1 percent in 1930 to 26.3 percent in 1933 (by 1937 the rate was back down in the 10 percent range). As discussed above, this increase in tax delinquency was due to the combined effect of several factors: reduced incomes and reduced property values placed property owners, especially landlords, in a double bind; and those developments led to a collapsing realty market and thus substantially reduced the effectiveness of government's usual response to delinquency, the tax sale. Compounding those problems was a downturn in the real estate industry that predated the depression. The late 1920s appear to have been a transition point in a typical boom-bust cycle. Many realty investors had leveraged themselves during the 1920s, and the market for real estate began to sag in the late 1920s. There had been troubling signs in the industry even before the Great Depression, with various studies showing a moderate rise in tax delinquency during the latter part of the decade.<sup>58</sup>

Like many other parts of the country, Chicago experienced a breakdown in the property tax system during the early 1930s. This was the central fiscal fact of the era. The collapse of the real estate market and the corresponding difficulties in property tax enforcement

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<sup>57</sup> Beito 1989, p. 1-5; also see Figure 7. On Illinois fiscal politics see Bennett S. Stark 1982, p. 1-2, 51, and Chapter VI generally.

<sup>58</sup> Beito 1989, p. 4-7, 43-44.

were met with growing criticisms of government, taxation, and especially the property tax. One manifestation was a wave of limitations or reductions imposed on the property tax system. As many as 16 states formally adopted property tax limitations in 1932 and 1933, and others enacted homestead exemptions. In some cases, the opposition to property tax burdens assumed the form of outright resistance, both legal and extralegal.<sup>59</sup>

Chicago offers an example of the most serious weapon in the arsenal of property tax resistance — the tax strike. During the 1930-1933 period, Chicago experienced the most prominent tax boycott of the depression era and perhaps the largest in U.S. history. Chicago's fiscal situation exemplifies the collapse of the property tax system in extreme form. The area was characterized by a high degree of fragmentation in government structure (well over 400 separate government units with taxing authority in Cook County alone), extreme variation in assessment rates, and pervasive corruption in local tax and assessment practices, a problem noted frequently by contemporary analysts and fiscal historians. Beito summarizes the problem of corruption:

An extralegal system of assessment, under the control of the dominant political machine, worked in tandem with these government bodies [the Board of Assessors and the Board of Review]. ... Tax fixing involved the juggling of assessments to reward those who cooperated with the local political machine and punish those who did not. By the 1920s, Chicago's rival Republican and Democratic machines had farmed out most of the tax-fixing authority to precinct captains.<sup>60</sup>

Although the problem was hardly unique to Chicago, the city probably experienced higher rates of underassessment for personal property than other comparable areas. In 1929, for example, the actual value of taxable personal property in Cook County was estimated to be \$30 billion, three times the actual value of taxable realty; nonetheless, realty accounted for over 80 percent of property tax collections. In addition, Illinois had

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<sup>59</sup> Beito 1989, p. 141, as well as p. xii and 33; Jacoby 1938, p. 76-77; Teaford 2002, p. 131-32.

<sup>60</sup> Beito 1989, p. 36.

implemented few of the Progressive-era fiscal reforms to strengthen administrative structures and revenue-collecting proficiency. Further exacerbating the situation — and perhaps revealing some of these deficiencies — the city's finances were under strain even before the Great Depression's onset. In the late 1920s the city had relied heavily on debt financing. Indeed, the city had levied no general property taxes from May 1928 through July 1930, instead funding city operations through tax-anticipation warrants. As a result these postponed liabilities, the common fiscal difficulties that every city faced during the depression were compounded in Chicago.<sup>61</sup>

The events leading up to Chicago's tax strikes are instructive in light of the themes developed in this dissertation. The teachers union and other education reformers, hoping to provide an expanded and more stable funding basis for education, led an effort to improve the city's tax system in the 1920s. Such groups operated under the assumption that the city's primary business center (the Loop) was a tax haven for the city's wealthy business interests. However, investigations spurred by their campaign ultimately revealed that the situation was more complex. Rather than being undertaxed, properties in the Loop actually had assessments that were relatively higher. This outcome makes some political sense, because the area had few voters. It would be a mistake, however, to interpret this result as an indication that the property tax system in Chicago operated in a consistently progressive fashion. The investigation also revealed, for example, that among residential areas, affluent properties tended to receive favorable treatment from assessors. The result of the education reformers' efforts was ironic. They had campaigned to reveal the inequities in the property tax system as a way to increase resources for education; however, they ended up providing ammunition to an emerging alliance focused on property tax reduction. As Beito writes, "revelations of tax corruption led to a realization of the teachers' worst nightmare: *a taxpaying alliance between homeowners and Loop business interests.*"<sup>62</sup>

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<sup>61</sup> Bennett S. Stark 1982, p. 8, 15, 57, and Chapter I generally; Beito 1989, p. xii, 33, 35-38, 41, and 50.

<sup>62</sup> Beito 1989, p. 40, my emphasis; also see p. 37-39.



To address the city's dire financial situation, a Citizens' Committee of civic and business leaders was formed in early 1930. The committee was chaired by Silas Strawn, a leading figure in the city's business community with substantial corporate and banking connections. The committee recommended two main courses of action. The first, to address the immediate revenue crisis, was to issue debt in the form of warrants, which were organized under the Cook County Warrant Trust. Subscribers to the fund included many major regional and national corporations. The second recommendation addressed the problem of getting the city's tax collections back on track. This part of the plan was harsh medicine: its proposed schedule required taxpayers come up with three years' worth of tax payments (for 1928, 1929, and 1930) over a 16-month period.<sup>63</sup>

The reaction from realty owners to the so-called Strawn Plan was rapid. A small group of real estate operators with extensive holdings in the Loop — many of them highly leveraged — formed the Association of Real Estate Taxpayers of Illinois (ARET), with John Pratt as the executive director. Although the tax resistance movement during the 1930s did find expression in national groups such as the American Taxpayers' League, the primary organizations were those like ARET, organized at the local level. Generally, tax resistance lacked an overall movement to coordinate efforts on the national scale. The closest approximation was the National Association of Real Estate Boards (NAREB), especially its Property Owners' Division, which organized autonomous chapters in various locations. The property owners' divisions were somewhat independent of NAREB and they had a stronger focus on tax reduction.<sup>64</sup>

The makeup of ARET was similar to tax resistance groups in other cities. Tax-reduction campaigns were usually instigated by fairly small groups of elite realty owners; however, it would be incorrect to dismiss the tax resistance as mere opportunism of the wealthy. Although led by large real estate owners, ARET's rank-and-file membership was a diverse group — diverse, that is, among property holders. It spanned various ethnicities,

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<sup>63</sup> Beito 1989, p. 41-43.

<sup>64</sup> Beito 1989, p. 11-12, 15, 44, and 47.

occupations, and geographic areas of the city and included many small businesses and skilled workers who owned homes. A fair number of these members probably had recently moved into the middle class, perhaps having achieved a degree of basic security by acquiring a home, small business, or rental property during the 1920s. The rapid rise of property tax burdens relative to incomes during that decade and especially during the early 1930s threatened to undermine these recent gains. In this light, when ARET's critics characterized the organization as a front for real estate speculators, the charge contained a deeper truth that applied both to the organization's elite leadership and to many of its small-scale real estate owners.<sup>65</sup>

The tax resistance in Chicago was a classic political alliance in which members of the propertied elite tapped the tax concerns of middle and merely affluent small property owners. Such alliances have organized against the property tax on many occasions in American history: in the South following the Civil War, in the campaigns to reform the property tax during the early twentieth century, in the tax resistance movements of the 1930s, and in the property tax revolts of the 1970s. The elite members play the leadership and organizational roles in the alliance, while the middling property owners provide both numbers and a sympathetic face for the movement, which emphasized the plight of ordinary owners.

ARET's political campaign was built upon the notion of a conflict between beleaguered taxpayers and various well-connected interest groups that depended on government spending. As Beito writes, "many resisters advanced a kind of class theory under which receivers of government funds were characterized as a 'tax spender' (or 'tax eater') class." Examples of this tax spending class included politicians, government employees, education and infrastructure-building interests, banks and insurance companies with

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<sup>65</sup> Beito 1989, p. 25, 81-86.

large municipal debt holdings, and various civic-reform-minded academics and professionals driven by a progressive agenda of more active governance.<sup>66</sup>

ARET's reform platform was strikingly old-fashioned: the centerpiece was bringing personal property to the tax rolls in order to achieve a reduction in the burden on realty. On narrowly legal grounds, ARET's case was solid: the state constitution still contained an 1870 amendment requiring property tax uniformity. A study commissioned by ARET estimated that a proper valuation would reduce realty's share of the general property tax burden in Cook County from well over 80 percent to roughly 30 percent. From a long-term historical perspective, political campaigns such as ARET's can be viewed as the dying gasp of the general property tax. A persistent theme of director John Pratt's radio broadcasts was to criticize not only tax spenders, but also banks that earned interest on tax-anticipation warrants while simultaneously evading intangibles taxation. Initially, ARET campaigned for a statewide ballot measure that would have permitted tax classification and an income tax (although ARET was not especially interested in the latter); however, when this measure failed, ARET shifted strategy away from looking for replacement revenue devices and instead focused on the illegality of the assessment, the underassessment of intangibles, and tax reduction generally. Beyond making general appeals for tax reduction and government retrenchment, ARET was like many other tax resistance movements of the 1930s in lacking a fully formed plan for fiscal change on either the spending side or the tax side of the budget. This absence of a more complete agenda was an indication of the group's relative political inexperience and no doubt hurt its political prospects. The most concrete and consistently articulated policy advanced by ARET boiled down to the old general property tax: the argument was simply that the uniformity provision in the constitution was being disregarded, that the current property assessment was invalid, and that a reassessment, if done according to legal requirements, would result in a substantial reduction in taxes on realty.<sup>67</sup>

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<sup>66</sup> Beito 1989, p. xii and 20.

<sup>67</sup> Beito 1989, p. xiii, 12-13, 33, 50-55, 86.

However correct ARET's argument may have been from a narrowly legal or economic perspective, it had no political prospects. Large and politically influential business interests in the city did not back ARET's program. Its emphasis on intangibles taxation was fundamentally at odds with the interests of large business portfolios. That simple fact stood behind the decades-long campaign against a truly general property tax. The city's banks and other financial institutions opposed the ARET plan not only because vigorous taxation of intangibles was an anathema, but because reassessment would have thrown the city's credit situation into turmoil and undermined the reliability of their municipal bond holdings. Added to this opposition was an influential press voice, *Tribune* publisher Robert McCormick, who also strongly opposed ARET's emphasis on personal property taxation.<sup>68</sup>

ARET tax resistance campaign grew significantly after it launched a membership drive organized around the idea of legal representation. The core premise behind the ARET legal cases was that the 1930 assessment should be voided because personal property had been largely ignored. By joining, a member agreed to ARET representation in legal actions to protect property from either tax sale or forfeiture. ARET's membership strategy was innovative because "by offering this legal service, ARET put within reach of the ordinary taxpayer an avenue of protest otherwise prohibitive to all but the wealthiest." Members were advised not to pay any taxes until legal issues concerning the assessment had been resolved. As of 1931, roughly 30,000 taxpayer appeals were pending before the Board of Review. In effect, the general property tax had reached the ultimate crisis: taxpayers were not paying taxes and were legally challenging the entire system for its failure to tap non-realty. Only 55 percent of the property tax levy had been collected by the penalty date of May 15 — a historic low. In addition, the tax sale process had broken down: tax sales held in September were largely unsuccessful, due to a lack of buyers.<sup>69</sup>

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<sup>68</sup> Beito 1989, p. 56, 65, 80, 98.

<sup>69</sup> Beito 1989, p. 63; also see 58-66.

ARET's tax resistance campaign received an aggressive and multi-pronged response. Leading critics were Mayor Anton Cermak and most of the Chicago press. A key part of the city's response was a pay-your-taxes campaign. It included the use of radio and newspaper advertisements, including full-page ads donated by newspapers (at the same time that ARET was being denied ad space). In addition, banks worked with the city government to create savings accounts that taxpayers could use to collect a year's worth of taxes in weekly installments while earning a little savings interest in the process. Chicago's pay-your-taxes campaign had parallels in other cities and states. State and municipal employees, along with various civic reform groups, had worked for decades to restructure and professionalize government; however, their improved image was seriously undermined during the 1930s by tax resisters, who viewed government employees with particular disdain. A leader in the national pay-your-taxes campaign was Thomas H. Reed — a prominent member in the civic reform movement who, as we shall see, also played an influential role in the adoption of a retail sales tax in response to Michigan's fiscal crisis.<sup>70</sup>

The more direct response to ARET's tax resistance came in the courts and the state legislature. Both arenas produced defeats for the group. A lower court had ordered the Board of Review to hear the taxpayer appeals to the 1930 assessment; however, this case was taken to the Illinois Supreme Court, which rejected ARET's arguments. As Beito observes, "the ruling underscored a problem that dogged ARET to no end. When forced to choose between literal enforcement of the uniformity article or protecting the power of government, the courts invariably opted for the power of government." This had always been the core legal problem not only for the tax resistance movement of the 1930s but for any group that hoped for an invigorated general property tax: in spite of what statutory or constitutional language promised, strict insistence on a general property tax would have thrown most state and local fiscal systems into deep crisis. ARET's legal troubles did not end with this loss on the substantive issue. A combination

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<sup>70</sup> Beito 1989, p. 18-19, 71-73, 86-92, 104-7, and Chapters 5-6 generally.

of internal factionalism and further legal setbacks brought down the group in 1933. After the state Supreme Court fined ARET for practicing law without a license, the group passed into receivership.<sup>71</sup>

In the same year, the state legislature passed three pieces of legislation to prevent future tax strikes: an act forbidding the incitement of tax strikes; the Skarda Act, which authorized local judges to appoint receivers for income-producing, tax-delinquent property and which empowered the receivers to assume control of the property to use some of the assets for taxes; and the Graham Act, which required a taxpayer to satisfy at least 75 percent of the taxes owed before bringing legal action challenging a tax or an assessment. This final requirement was crucial, because the success of ARET's membership campaign hinged on the ability of members to bring suit without paying taxes. Several other states passed laws modeled on the Skarda and Graham Acts.<sup>72</sup>

As a result of such legal changes, along with the generally improving economic conditions, tax delinquency rates declined considerably after 1933. Additional assistance in this area came from federal policy to bolster the real estate market through the Home Owners' Loan Corporation (HOLC). By subsidizing home loans, HOLC boosted demand and thus realty prices, lessening some of the underlying pressure behind tax delinquency. HOLC loans could be used to pay back taxes, and about 7 percent of HOLC loans were used in this way.<sup>73</sup>

### **The persistence of existing fiscal arrangements**

Before turning to a discussion of states that significantly altered their fiscal systems by adopting new fiscal instruments during the 1930s, it is useful to consider briefly some

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<sup>71</sup> Beito 1989, p. 78; also see p. 64 and 95.

<sup>72</sup> Beito 1989, p. 75 and 95.

<sup>73</sup> Beito 1989, p. 144.

states that either avoided such major changes or responded to the economic crisis in ways that could be characterized as evolutionary rather than revolutionary.

The most prominent example of this theme is found in the Northeast, which was distinctive in its avoidance of sales taxation. As discussed above, the region adopted no general sales taxes during the Great Depression, and it relied less heavily on other forms of sales taxation, notably fuel taxes. These geographic statistical patterns were strong even in the face of various political and socioeconomic controls.

It was probably not coincidental that the Northeast was the region that had had pursued the Progressive-era fiscal reform agenda most fully. The precise mechanism connecting these earlier reforms with the Northeast's distinctive policy choices during the 1930s, however, remains somewhat elusive. The most obvious explanation might be that such states entered the Great Depression with a broader set of fiscal devices — because of the fiscal reforms of the previous generation and perhaps because of their more developed economies — and thus did not experience the property tax crisis as keenly as states in other regions. However, such observations are speculative. Exploring this issue fully requires a consideration of both state and local finances, and existing data on local government taxation are not very good. Moreover, only a modest statistical relationship exists between a state's tax reliance in 1927 (specifically, its reliance on income, corporate, and estate taxes, as opposed to property taxes) and its subsequent use of sales taxation in the 1930s. The regional distinctiveness of the Northeast persists even with such controls in place. For now, we are left simply with an observation a geographical pattern that persisted across multiple generations: an early and strong movement away from the general property tax during the late nineteenth and early twentieth centuries, and then a distinctively low reliance on sales taxation during the interwar period.

An additional explanation for the Northeast's avoidance of general sales taxation might connect economic conditions to the issue of retailer politics. As the most commercially and economically developed region of the country, with the greatest population densities, the Northeast might have been the region with the best developed retailer organizations and political lobbies. The cases studies by Haig and Shoup on sales tax campaigns during the early 1930s consistently note the effectiveness of sales tax opposition from retailer groups in the Northeast.

Massachusetts and New Jersey provide examples of states not only where the state government had abandoned property taxation before the onset of the economic crisis, but where local governments were distinctive in deriving a larger than average share of their revenue from state-administered taxes — specifically, income taxes, corporate taxes, and public utility taxes. These states did experience fiscal difficulties during the early 1930s, and sales taxation was debated in the state legislatures. In Massachusetts, for example, it was assumed that the state constitution forbade sales taxation; however, in 1933 the legislature requested an advisory ruling from the state supreme court, which declared sales taxes to be excises and thus legal — as opposed to being property taxes, which faced stricter requirements. This ruling strengthened the hand of the sales tax advocates, who proposed several bills in the 1930s. The usual supporters and opponents lined up on the issue: in favor were real estate interests, the governor, bankers and other government bond holders, and, to a limited degree, the Farm Bureau; opposed were foreign-born voters and foreign-language newspapers, the State Federation of Labor, and perhaps most importantly well-organized retail merchants. The sales tax proposals fared poorly, never gaining traction in the legislature. The scenario in New Jersey was roughly similar: a sales tax was broached in 1932, but strong opposition materialized from well-organized retail interests. The governor withdrew his support from the sales tax and instead proposed various spending cuts, borrowing, a diversion of transportation bond revenues to relief, and other accounting shifts.<sup>74</sup>

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<sup>74</sup> Haig and Shoup 1934, p. 112-22.



Other states in the Northeast flirted with general sales taxation more seriously. For example, New York and Pennsylvania adopted temporary retail sales taxes that were allowed to lapse. In the case of Pennsylvania, the state added the retail sales tax to an existing low-rate mercantile license tax system that had been in place for many years. The temporary tax was motivated largely by a desire to meet requirements of a grant from the Reconstruction Finance Corporation. While it was in place, the sales tax was unpopular and faced organized and widespread opposition. Pennsylvania also explored the income tax; however, it faced a difficulty common to several states: the state constitution contained a uniformity clause that was thought to forbid progressive income taxation. A constitutional amendment allowing a graduate income tax had failed narrowly in 1913. In spite of such legal concerns, the state legislature nonetheless passed a uniform (flat rate) corporate income tax and a progressive personal income tax; however, the state supreme court overturned the personal income tax. Another attempt to pass a constitutional amendment allowing progressive income taxation (and granting broad property tax exemptions) was rejected by voters in 1937.<sup>75</sup>

A few other examples outside the Northeast can be cited to provide some suggestive evidence concerning the importance of a well-developed set of alternative taxes as one barrier — certainly not a decisive one — against the adoption of general sales taxation during the 1930s.

- Virginia. The state entered the 1930s relying significantly on income taxes, intangible personal property taxes, and gross receipts taxes on public service corporations. The state had relinquished its claim on the property tax in 1927 and assumed responsibility for rural roads in 1932, relieving the rest of the local property tax system. In addition, the state government had a budget surplus entering the depression — in marked contrast, for example, to Chicago with its

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<sup>75</sup> Haig and Shoup 1934, p. 122-44. Also see McKenna 1960.

huge fiscal backlog. The state balanced its budget through additional borrowing, substantial retrenchment, use of the accumulated surplus, and by spending almost nothing on unemployment relief. Within this fiscal context, there was little energy behind new replacement taxes during the early 1930s.<sup>76</sup>

- Wisconsin. The sales tax was hardly a political issue. The economic crisis was met through retrenchment and increases in its existing taxes, notably the state's well-developed income tax system, which had long earmarked significant revenues for local governments.<sup>77</sup>

- Texas. Property tax delinquency was a serious problem in the state, and the pressure for property tax relief was strong (for example, a homestead exemption was passed in the early 1930s). Both an income tax and a general sales tax were debated in a special session in 1933, but neither passed. Support for sales taxation came from large property owners and from natural resource and utility industries. Such firms already paid gross receipts taxes. Since the state constitution forbade being taxed twice on the same sales, these firms stood to benefit from most types of sales taxation that reduced property tax levies. Local governments also lobbied for sales taxation if it were tied to revenue sharing. None of the major new taxes were adopted, however. A noteworthy feature of the state's existing fiscal system was its heavy reliance on gross receipts taxes, especially from oil production. The presence of such revenue perhaps provided a sufficient buffer to blunt the movement for sales taxation. Instead the state balanced its budget through a mix of property tax increases, significant economies, new alcohol taxes, and a new intangibles tax on pipeline companies.<sup>78</sup>

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<sup>76</sup> Haig and Shoup 1934, p. 209-11.

<sup>77</sup> Haig and Shoup 1934, p. 278-81.

<sup>78</sup> Haig and Shoup 1934, p. 206-9.

Illustrations of the persistence of existing fiscal arrangements can be found in another direction: not in the states that avoided general sales taxation, but in the two states — West Virginia and Mississippi — that expanded their existing sales taxes, converting them into modern systems that included high-rate retail sales taxes. The details of the older sales tax systems in these states were discussed already. In 1933 West Virginia's complex gross receipts tax system was replaced with a gross income tax (including personal income) and a modern retail sales tax. The new system was also complex (with varying rates across industries and sectors), but the driving force for fiscal reform in West Virginia was the same as elsewhere: property tax relief, in this case led by T. C. Townsend, a former tax commissioner. Mississippi's "old" sales tax actually began as the depression was just starting, in 1930. This initial system was like general sales taxes from earlier generations because it was a low-rate gross receipts tax. As the depression worsened, however, Mississippi modified the sales tax to include a high-rate retail sales tax — initially as a temporary measure, but it soon acquired permanence. Unlike states in the Northeast, which had strong political movements from retailers opposing general sales taxes, the retail sector in Mississippi did not offer well-organized resistance to the new retail sales tax.<sup>79</sup>

### **Contingency, path-dependency, and contested outcomes**

Whereas some states moved in a fairly decisive manner toward either income taxation or sales taxation — or, in several of the cases just discussed, moved in a direction consistent with their existing fiscal structures — other states experienced substantial political struggles over the choice between income and sales taxes. The cases explored in this section fit under that broad description. In addition, they illustrate several other important themes: the difficulty of adopting any major new tax; the contingent and path-dependent nature of the choice between income and sales taxation; the fragility of an income tax movement premised mainly on either property tax relief or revenue

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<sup>79</sup> Jacoby 1938, p. 52-65; Haig and Shoup 1934, p. 211-24 and 164-80.

growth; and the inherent difficulties that income taxation faced in becoming a dominant tax during the 1930s, given the prevailing fiscal ideology and structures. Three case studies will be explored in some depth — Oregon, Washington, and South Dakota — with reinforcing observations from the states of Oklahoma, Utah, and Kentucky.

### **Oregon**

The story behind Oregon's adoption of an income tax is a long one, almost comical in its detours and setbacks. At a broad level, the push for income taxation in Oregon was based on the dynamics already noted the preceding discussion. As usual, the overriding concern was to reduce realty taxation. In Oregon, as in many other states, there was a strong rural component to the push for income taxation. The Oregon Grange, for example, was active throughout the 1920s in lobbying for an income tax to serve as a replacement for state property taxes. The income tax movement also managed to garner fairly consistent support from organized labor. A loose coalition of farm and labor groups would ultimately succeed in achieving an income tax — but it was a long road getting there.<sup>80</sup>

Gubernatorial proposals for income taxation had been floated in Oregon as early as 1889, but the first serious step toward an income tax occurred in 1912, when an initiative petition modifying the constitution to allow for proportional or progressive income taxation failed by just a few hundred votes (on a ballot crowded with several tax measures, which perhaps contributed to the defeat). During the 1920s the movement toward income taxation became more intense and persistent. The 1919-1923 period witness several unsuccessful bills in the legislature, along with two tax commissions focusing on the issue of property tax relief. Another constitutional amendment was considered in the 1922 election. Although the amendment was rejected decisively, this

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<sup>80</sup> The main sources for the Oregon case study are Roberts 1990 and Warren 1937.

would be the first of nine consecutive elections featuring income taxation as a prominent issue.<sup>81</sup>

In 1923 and 1924, the state nearly achieved an income tax. Various proposals were circulated, including a tax commission's recommendation for a proportional income tax and a plan from the governor to adopt a state tax mimicking the federal system. The bill ultimately adopted by the legislature was a progressive income tax with fairly typical exemptions: \$1000 for an individual, \$2000 for a married couple, and \$400 for dependents. Challenges to the new tax were immediately launched on both legal and electoral fronts. Both challenges failed: the state supreme court upheld the tax, and the referendum to overturn the tax was narrowly defeated (by about 500 votes). The highest levels of support for the tax appeared to come from rural counties and working class areas, while Multnomah County, the state's banking and business center, voted strongly against the tax. Post-election commentary by the state's dominant newspaper, *The Oregonian*, suggested that opponents of the income tax had been lulled into a false sense of confidence and did not campaign vigorously against the tax.

The next year, 1924, another referendum challenge was launched, this time with a larger campaign fund. Two arguments were especially prominent in the campaign against the tax. The first focused on interstate competition: since neighboring states lacked an income tax, Oregon would lose capital and industry. In fact, the anti-income-tax campaign made strong claims about the extent of business investment that had been lost already due to the new tax. The second argument dealt with the matter of fairness: since the income tax law had no property-tax offset, individuals who received a large share of property income would be unduly taxed. Although it is difficult to know how persuasive this argument was, it illustrates how tightly coupled income and property taxation still were in fiscal discourse. Oregon was not unique in this regard: income taxation in the 1920s and 1930s continued to operate within a framework

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<sup>81</sup> Warren 1937, p. 193.

inherited from the older system of property taxation. The second referendum challenge succeeded in repealing the income tax. The contrast with the previous vote is illustrative. The income tax had survived narrowly in 1923, an off-year election, in which fewer than 117,000 votes were cast on the income tax question. During a presidential election year, 1924, the income tax failed by a margin of 54 to 46 percent, with nearly 240,000 votes cast. This pattern was typical in Oregon and other states, notably California, that made frequent use of direct democracy: more expansive fiscal results were usually achieved in off-year elections. The only consolation for income tax proponents from this sequence of events was that the revenue generated by the short-lived tax had been significantly higher than projected: \$3 million rather than \$1.25 million.<sup>82</sup>

Several income tax proposals were considered during the 1925-1926 period. Governor Walter Pierce again called for an income tax similar to South Carolina's, under which state tax liability would simply be one-third of the federal tax liability. Although the legislature apparently favored an income tax, politicians were concerned about ignoring the negative results from the 1924 election, and they were weary of the regular replay of the income tax battle. As a result, the legislature referred to the voters a constitutional amendment that would have prohibited both income and inheritance taxes until 1940. This issue was on the ballot in 1926, along with two progressive income tax bills, one sponsored by the Grange and another by a group calling itself the Public Service League. The bills were similar, except the latter included a property tax offset. All three measures were defeated. The presence of competing income tax bills probably did not help the Grange measure, which came the closest to passing (47 to 53 percent).<sup>83</sup>

The 1927-1928 period witnessed another round of defeats for income taxation. Governor Isaac Patterson called for graduated income tax with a low top rate. The

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<sup>82</sup> Warren 1937, p. 197; Roberts 1990, p. 167.

<sup>83</sup> Warren 1937.

governor and other state officials were driven partly by a financial emergency resulting from the short-lived income tax of 1923, which had replaced the state's general property tax levy. When the income tax was repealed the next year, the state's new property tax based was considerably less than it had been. Because the constitution prevented property tax levies from increasing more than 6 percent in one year, the state's property tax revenues could not quickly recover to prior levels. Meanwhile, the legislature had not curtailed appropriations in 1925, resulting in an \$842,000 deficit at the close of fiscal year 1926. The usual events ensued. To address the revenue problem, the legislature referred an income tax to the voters in June 1927. The ballot also included a companion proposal to increase the state's tax base beyond the 6-percent growth limit. The income tax was defeated by a 42-58 percent margin. The next year the Grange sponsored another income tax, this time crafting legislation that specifically slated income tax revenues as a replacement for the state property tax and that exempted banks — a key opposition group — from the income tax. The bill was defeated by a 47-53 percent margin.<sup>84</sup>

Although the 1928 effort had failed, the strategy embodied in it would prove successful the next year. In 1929 another commission formed to address the issue of realty tax relief recommended that "legislation should be enacted to reach resources and intangible property now contributing to no substantial degree to the tax burdens of the people." To achieve this end, the commission proposed an income tax with a property tax offset, plus a corporate net income tax, the details of which were to be determined with an eye toward the corporate tax policies in nearby (competing) states. The commission's work influenced the legislature, which considered various bills and ultimately settled on legislation titled the "Property Tax Relief Act of 1929." It included a progressive personal income tax, a corporate income tax with a property tax offset, and a tax on income from intangible property. The legislation survived a referendum challenge in 1930 by a 53-48 percent margin — continuing with the trend of greater

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<sup>84</sup> Warren 1937.

success for new taxes in off-year or midterm elections rather than presidential election years.<sup>85</sup>

As the fiscal and economic crisis became more severe, Oregon faced the same difficulties as other states. To address revenue shortfalls, various sales tax proposals were considered, some backed by the governor. The legislature adopted a gross receipts tax in mid-1932. It imposed a 2 percent tax on retail sales and a rate of 0.3 percent on other sectors. In addition, the legislation included provisions exempting tangible personal property from ad valorem property taxation. This general sales tax was defeated decisively in a referendum the next month, with strong opposition coming from farmers, retailers, and labor groups. Led by the Anti-Sales Tax Federation, the opposition emphasized the regressive tilt of the legislation, both its sales tax component and its property tax exemption. The sequence of events was repeated in late 1932 and early 1933: the legislature passed another general sales tax (this time a retail sales tax), and it was defeated in a referendum. Having had its preferred course of action — a general sales tax — rejected twice by voters, the legislature was forced to address the fiscal crisis through additional borrowing, increases in the gasoline tax, and revenue-enhancing changes to income tax rates and exemptions.<sup>86</sup>

The centrality of the referendum to Oregon's fiscal history during the 1920s and 1930s is obvious. Many states allowed the legislature to pass new taxes with a super-majority, in the process declaring them to be temporary emergency measures immune from referendum challenge. That was a common route for general sales taxes during the 1930s. Oregon lacked such provisions, so every controversial tax had to survive a popular vote. The distinctiveness was Oregon's institutional rule more than its preferences. General sales taxes were rarely subjected to a popular vote in the 1930s, precisely because legislators could read the political climate. In the three states that did hold votes — Oregon, Arkansas, and North Dakota — the consistent outcome was

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<sup>85</sup> Warren 1937, p. 201; Haig and Shoup 1934, p. 298-302.

<sup>86</sup> Warren 1937; Haig and Shoup 1934, p. 298-302.



rejection. The examples of Arkansas and North Dakota are illustrative: in both states voters rejected general sales taxes by decisive margins (89-11 percent in Arkansas and 72-26 percent in North Dakota); however, in the next session (1935), the legislatures enacted sales taxes using procedures to avoid referendum challenges. Income taxes were sometimes able to cross this popular hurdle, provided that they were adequately framed as realty tax relief and that they included enough concessions to key interest groups — such as the property tax offset in Oregon's corporate income tax. In no instance, however, was general sales taxation able to achieve a similar popular acceptance — especially not after, as in Oregon's case, the income tax had already been framed and adopted as the realty tax relief measure.<sup>87</sup>

### **Washington**

Oregon and Washington provide a useful contrast for understanding fiscal outcomes during the 1930s. The states were roughly similar by many economic, social, and political measures, and their fiscal histories prior to the 1930s were comparable. Nonetheless, the states would emerge from the fiscal crisis on opposite ends of the sales-income tax continuum, and this difference would continue to the present day. In addition to illustrating the phenomenon of long-term persistence in fiscal structures, the comparison of Oregon and Washington highlights the importance of path dependency on a smaller time scale: in both states, the adoption of a major new tax worked to drain the momentum out of the campaign for the other tax. Moreover, the precise outcome — which tax would succeed first — was highly contingent. It is not difficult to imagine a scenario for Oregon in which the successful 1929 income actually failed, thus altering the state's fiscal response during the severe 1932-1933 period, perhaps significantly so. In Washington's case, the contingency of the outcome is even more striking, as we shall see. The comparison between the two states also highlights the issue just noted — namely, Oregon's distinctive institutional rules regarding the referendum process.

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<sup>87</sup> Haig and Shoup 1934, p. 145-49, 259-64, 298-302.

Fiscal politics in Washington during the 1920s were similar to those in Oregon, including various failed efforts to adopt an income tax. Above all else, however, was the familiar story about the mobilization of property owner groups to limit property taxation. The leaders of this effort were the Seattle Real Estate Board, the State Federation of Taxpayers' Association, and farmer organizations. A fixture of Washington politics during the 1920s was the 40-mill property tax limitation. Such efforts by private interest groups were supplemented by the usual governor-appointed tax commissions — the Hart and Harley commissions, each of which recommended that the state's tax system be broadened to reduce the property tax burden. In Washington, as elsewhere, there had been substantial increases in property tax burdens during the 1910s and 1920s. Steep increases in property tax rates and assessments, along with price declines for agricultural commodities, led to rising discontent among farming communities. Rural areas tended to favor income taxation as the replacement tax to reduce the burdens on realty; however, with rural population falling in relative terms, income taxation needed allies from towns and cities.<sup>88</sup>

The intensity of Washington's fiscal politics elevated in 1929 and 1930. Both an income tax and a general sales tax were considered by the legislature, passing in one house but getting bottled up in committee in the other. Broadly speaking, the dynamic was one of urban legislators supporting the sales tax and rural legislators favoring the income tax. Another development was Governor Roland Hartley's appointment of a group to examine state tax policy, especially the issue of realty relief. The committee recommended a flat-rate corporate income tax and a progressive personal income tax. In reaching its recommendations the group placed special emphasis on the ability-to-pay standard when judging tax alternatives. Finally, during the same period the legislature passed a franchise privilege tax on financial institutions, using net income as the basis. However, in March 1930 the state supreme court struck down the tax in a 6-3

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<sup>88</sup> Sanders 1992; Roberts 1990, p. 148-50 and 163-64.

vote (*Aberdeen Savings and Loan Association v. Chase*). The court ruled against the tax on equal protection grounds: net income was interpreted as a type of property, and because the tax was not applied equally (large banks received more favorable exemptions), it was held to be unconstitutional. This case would prove to be an early indicator of the difficulties that income taxation would face in Washington.<sup>89</sup>

Since the Senate had passed an income tax in 1929, and since the governor's own tax committee had favored such a tax, political observers thought it likely that Washington's legislature would adopt an income tax in the 1931 session. Although both income taxes and general sales taxes were considered, the sales tax did not fare well. The measures with the most support were Senate Bills 26 and 27, personal and corporate income taxes. They moved rapidly through the Republican-dominated Senate and passed by wide margins (roughly 2-1) in the House. The personal income tax had an exemption of \$1000, well above the average income in the state (about \$750 in 1929). In spite of their strong support in the legislature, both bills were vetoed by the governor — apparently, an outcome that was not a surprise. The governor's veto message emphasized the theme of retrenchment, calling for a reduction in government spending rather than adopting new revenue sources. The governor also asserted that the new income taxes would not be effective in lessening the tax burden on realty. Also relevant was the attorney general's advice to the governor that the legislation was unconstitutional in light of the recent *Aberdeen* case. This conflict over income taxation vividly expressed the rifts that had been emerging within the Republican party. This intra-party conflict, on top of the worsening economic conditions, made it clear that Governor Hartley would not win the party's primary election in 1932. Instead, Lieutenant Governor John Gellatly, an income tax proponent, won the nomination.<sup>90</sup>

In the elections in 1932, two important events occurred. The first was that voters successfully adopted an initiative limiting property taxes to 40 mills. This victory was the

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<sup>89</sup> Roberts 1990, p. 158-63.

<sup>90</sup> Roberts 1990, p. 180-85.

culmination of a 10-year battle waged by real estate groups. The 40-mill campaign was explicitly advanced to force the search for replacement taxes. The Seattle Real Estate Board had paid the campaign costs, and most newspaper editors voiced support. Meanwhile, the Washington Education Association, organized labor, and most government officers had opposed the limit.

The second critical event in 1932 was the successful passage of an income tax initiative, led by the Grange. The drafters of the measure were aware of the legal dangers; however, they did not pursue a constitutional amendment because of the delay that such a process would involve. Moreover, seemingly ignoring the legal warning that they could have gleaned from the *Aberdeen* decision, the initiative planners did not propose a flat-rate income tax or even a tax expressed simply as a percentage of the federal income tax. Instead, the initiative contained extensive language declaring the measure's purposes and explicitly distancing the tax's basis from the concept of property. At the same time, however, the proposed income tax included a property tax offset. This provision served to bind the tax to the property tax rubric in spite of the initiative's assertions to the contrary, and it also ensured that the tax would fail to raise sufficient revenue to replace the state's property tax. The result was Initiative 69, which consumed over 20 pages in the 1932 voter's pamphlet. The ballot's summary clearly stated that the intent of the measure was to reduce or eliminate the state's reliance on the general property tax.<sup>91</sup>

Because the farm population represented only 19 percent of the state's 1.5 million residents, the Grange's political strategists knew they needed urban allies in order to pass the initiative, so an area of focus for the campaign was to draw support from groups such as the Washington State Federation of Labor, the Washington Education Association, the Seattle Central Labor Council, and the Seattle Unemployed Citizens' League. Most business groups opposed the measure or remained neutral. Real estate

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<sup>91</sup> Roberts 1990, p. 190-99; Haig and Shoup 1934, p. 309-17.

groups were mixed, some favoring both the income tax and the 40-mill limitation. Newspaper editors generally lined up in favor of the 40-mill limit and against the income tax. In their opposition to the income tax, editorialists frequently mischaracterized the income tax as a revenue device that would burden those in the middle of the income distribution. The Grange coalition of farmers, urban labor, schoolteachers, and disgruntled urban property owners was effective. With many other political issues also on the ballot — partisan and presidential politics, prohibition, and the 40-mill limit — the income tax did not dominate political discourse in the 1932 election. Nonetheless, the initiative passed with 70 percent of the vote, which was larger than the victory margin achieved by either the 40-mill limitation or the anti-prohibition measure. The income tax garnered more than 60 percent of the vote in every county except one. The margins were the largest in more rural counties. Although the income tax had passed by a solid margin, this victory hinged on the property tax offset, without which real estate interests probably would not have favored it.<sup>92</sup>

After the income tax initiative passed, three sets of events proceeded roughly simultaneously, each of which will be discussed in turn: the state began to implement the new tax; legal challenges were launched; and, in light of those challenges, the state legislature and the governor began to consider other revenue options.

The first step for state officials in implementing the new tax was to determine who should receive income tax returns. Federal figures showed that approximately 50,000 state residents earned sufficient income in 1931 to file federal returns. However, the Washington exemptions and brackets were quite different, so officials could not easily estimate how many people would have to file state returns (the exemptions were \$800 for individuals and \$1,750 for married couples). In addition, all businesses and professionals had to file a return if gross income was \$2,500 or more, regardless of net income. As a result of such issues, income tax forms were mailed to most households,

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<sup>92</sup> Roberts 1990, p. 195-203, 213-14.

including farmers and wage laborers earning less than the minimum, as well as persons in occupations exempted from the tax (for example, federal employees). In addition, many newspapers printed statements to the effect that everyone who received a form had to file, regardless of income. Meanwhile, "expert" columns provided income tax advice to readers but made little effort to ease public concerns about the difficulty of filing. This botched implementation was a factor in dampening public support for the tax and may even have played a role in the coming legal decisions.<sup>93</sup>

The legal challenge to the income tax measure was organized by two groups of Seattle businesses, led by the Seattle Chamber of Commerce, with insurance agencies and auto dealerships heavily represented. In addition to the primary legal challenge of *Culliton vs. Chase*, a group of municipally owned utilities argued that the income tax was a property tax and thus that they were exempt from it. Although past rulings on the income tax had not been favorable, the recent Supreme Court election results seemed promising for the income tax.<sup>94</sup>

The case before the Washington Supreme Court case was eventful. Justice Emmett Parker was ill and never recovered sufficiently to participate. The other eight justices announced a 4-4 deadlock on June 15. The court decided to rehear the case next term, over the objection of opponents, who argued that a deadlock should have left the superior court judgment standing (it had overturned the income tax). Governor Clarence Martin appointed a close political ally to replace Judge Parker: James Geraghty, a man from the eastern, more rural part of the state. On September 8, the court overturned the tax in a 5-4 vote — even though Geraghty voted to uphold the tax. As in the famous U.S. Supreme Court case in 1894-1895 (*Pollock v. Farmers' Loan & Trust Company*), the 5-4 verdict against income taxation was a result of one of the judges changing his mind,

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<sup>93</sup> Roberts 1990, p. 233-38.

<sup>94</sup> Roberts 1990, p. 222-23; Haig and Shoup 1934, p. 309-17.

in the negative direction, between the first and second hearings of the case, most likely Justice Oscar Holcomb.<sup>95</sup>

The majority opinion held that income was property and thus that the tax violated Washington's 14th Amendment, which required direct taxes to be uniform across all types of property. Some legal scholars criticized the court's reasoning, particularly the majority's strained distinction between income and inheritance taxes, under which the inheritance tax was characterized as a one-time "impost" rather than a direct tax (this distinction was needed because state courts had already upheld the inheritance tax). Perhaps less revealing that the legal rationale — which was fairly standard for courts that overturned state income taxes during the 1930s — was the wider political context in Washington. It seems plausible that the awkward start to the administration of the income tax — mailing ballots to too many people, along with inadequate public information about how the tax worked — had an effect in causing Justice Holcomb to change his mind between the first and second hearings of the case. The *Seattle Times*, in praising the decision, and the Grange, in bemoaning it, made reference to these botched administrative efforts and the ensuing effect both on public opinion and, quite possibly, on the opinion of the court.<sup>96</sup>

Constitutional requirements for tax uniformity — a legacy of nineteenth-century general property taxation — had an important impact on the choice between income and sales taxation during the twentieth century. Sales taxes usually met with judicial approval, even though some general sales tax systems used rate structures that varied by industry or economic sector. Income taxes, however, were sometimes rejected, or they succeeded only after surmounting the hurdle of a constitutional amendment process. In nineteenth-century cases on state income taxation, the crucial question often addressed the nature of the tax — that is, whether it was a tax on property. This question was decisive because courts usually required a stricter standard of uniformity for property

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<sup>95</sup> Roberts 1990, p. 96-97, 230-38.

<sup>96</sup> Roberts 1990, p. 234-38; Haig and Shoup 1934, p. 309-17; Sanders 1992.

taxes. In a typical rejection of an income tax, the logic was that a tax on the income from property is functionally equivalent to a tax on the property itself. The *Pollock* decision by the U.S. Supreme Court also influenced state-court rulings on income taxes during the 1930s, and it was frequently quoted in such cases. In the *Pollock* case, the issue was whether the income tax was a direct tax and therefore subject to the requirement that all federal taxes be apportioned to the states in relation to their populations. The reasoning in this case ran roughly parallel with the issue on the state level: if the tax was a property tax (akin to a direct tax), it faced the more stringent requirements (the apportionment requirement on the national level, and the uniformity requirement on the state level). In some state tax decisions, a similar logic was applied to income taxation even when the state constitution lacked an explicit uniformity clause. The reasoning in such cases effectively advanced the idea that equality, or uniformity, was implied in the very power of taxation itself.<sup>97</sup>

Although examples such as the Washington Supreme Court's overturning of an income tax were important, the constitutional obstacles hindering the passage of income tax laws during the 1930s need to be placed in context. In work by historians and contemporary analysts, one sometimes finds simple assertions that the existence of a legal requirement for tax uniformity virtually compelled legislators to adopt a general sales tax. In fact, although many income taxes were challenged as violations of uniformity requirements, most income tax laws were upheld in courts.<sup>98</sup> Furthermore, in states where income taxes were overturned on uniformity grounds, the votes were sometime tight, as in the case of Washington. In other words, the legal outcomes were far from clear. Thus, assertions concerning the constitutional impossibility of income taxation — which were frequent in the debates over the tax during the interwar period — need to be understood as political statements. If the political system wanted to use income taxation, it did so — or, at a minimum, it forced the courts to render a verdict on the issue. In states where the court's hand was never forced, we need to understand

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<sup>97</sup> Penniman 1976, p. 446-47; Newhouse 1984, p. 1923-24, 1935-36, 1941-43; Simpson 1926, p. 126.

<sup>98</sup> National Industrial Conference Board 1930b, Volume II, p. 172.



this outcome as a political victory, not necessarily an affirmation of positively known legal constraints. On balance, it is certainly true that the general property tax's uniformity-clause legacy did tilt the playing field against income taxation. Legal attacks were waged more successfully against income taxation than sales taxation: whereas several income taxes were overturned by courts on uniformity grounds, only one general sales tax was. Uniformity requirements did place an additional hurdle in front of income taxation, but this was not determinative. An additional piece of evidence in this regard can be seen by examining the matter from a different angle — tax reliance rather than tax adoptions. If political forces in the United States were pushing strongly in the direction of income taxation, and if those forces were frustrated by constitutional impediments, one would have expected states that did manage to surmount the legal barrier to use income taxes extensively, or at least on par with general sales taxes. That did not happen. During the interwar period, only a few states achieved high values on income tax reliance. In states that adopted both income and general sales taxes, tax reliance for sales taxation was typically several times higher than for income taxation.

While state administrators were starting to implement Washington's new income tax in early 1933 and while the legal challenge to the tax was still pending, elected officials began to search for alternative revenue sources, both because of the potential for a negative ruling by the courts on the income tax and because of the recent passage of the 40-mill property tax limit, which was expected to throw state finances into deficit regardless of the court's verdict. What emerged from the legislature was a business activity tax — effectively a gross receipts tax levied on most business sectors. The tax was based on a plan initially drafted by economists from the University of Washington, in consultation with various business groups. The system was modeled on West Virginia's gross receipts tax. Rates ranged from 0.2 percent to 5.0 percent, depending on the sector. Notably, the retail sales tax rate was quite low at 0.5 percent. In this sense, Washington's initial general sales tax (substantial modifications would occur in 1935) can be understood as a variant of the older approaches to general sales taxation, as

seen in states like West Virginia and Mississippi. The legislature passed the tax as a temporary emergency measure, with a super-majority sufficient to shield the tax from a referendum challenge. Like the income tax, the general sales tax was challenged in the courts on uniformity grounds. After all, it imposed a tax on the gross receipts (gross income) of businesses, and the rates varied considerably from one sector to another. However, the tax was declared to be an excise rather than a property tax and thus was immune from the strictures of the uniformity clause.<sup>99</sup>

The legislature also responded to the state supreme court's income tax decision by proposing a constitutional amendment to allow income taxation. By this point, however, the campaign for an income tax had lost much of its steam. The primary concerns of farmers and many homeowners, for example, had been focused on the issue of tax relief for real estate, and the 40-mill limitation had addressed that problem. For state officials and education groups concerned about adequate funding for state programs, the new gross receipts tax seemed to offer a more direct path. In addition, opponents of income taxation were able to make effective political use of the administrative missteps during the early implementation of the 1932 tax. One consequence was that labor support for the income tax dropped considerably. According to research by Roberts — which included interviews of Grange members active in the political campaign for the income tax amendment — the Grange did receive the backing of some union officers; however, they got very few invitations to address labor groups. In effect, the "coalition with labor was evaporating." The amendment for an income tax won only 43 percent of the popular vote. Meanwhile, a vote in the same election to extend the 40-mill property tax limit and to reduce the state's property tax rate from 5 mills to 2 mills won 53 percent of the vote.<sup>100</sup>

Between the general election in November 1934 and the opening of the legislative session in January 1935, many politicians, government officials, and public sector

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<sup>99</sup> Roberts 1990, p. 231 and 283; Haig and Shoup 1934, p. 309-17; Sanders 1992.

<sup>100</sup> Roberts 1990, p. 254 and 247-256 generally.

interests (especially education groups) began to think that the tax system needed a more thorough overhaul in order to cope with the revenue shortfalls caused by the recently extended 40-mill limitation. The fiscal reforms passed in 1935 included 14 new taxes; however, the primary change was to convert the 1933 general sales tax into a modern form — that is, to include a high-rate (2 percent) retail sales tax capable of yielding substantial revenues. The legislature also passed another net income tax. Like many of its predecessors, the bill had been drafted by a Grange committee; however, in this case, the tax simply duplicated federal provisions, in order to avoid the kind of administrative confusion experienced during the early implementation of the 1932 tax. The drafters also added language to prevent a court overruling: the bill's language explicitly denied that the tax was upon income; rather, it was a tax on the privilege of receiving income while enjoying the protections of Washington state law. Both the income tax and the overhaul of the general sales tax passed the legislature in the last days of the session, with broad support.<sup>101</sup>

In spite of the 1935 income tax bill's language that attempted to distance itself from property taxation (and even from income taxation), the legal outcome was the same: a 5-4 vote by the state supreme court rejecting the tax. Although Grange leaders vowed to continue the campaign, neither farm groups nor organized labor devoted much effective political energy to income taxation for the rest of the decade. An income tax was put before the voters again in 1936 and 1938; however, the opponents were far better organized and motivated. The Washington Taxpayers' Association regularly blasted the income tax in its monthly newsletter and in other public activities. Interestingly, the campaign rhetoric against the tax leaned heavily on the ideal of uniformity in taxation. One piece of campaign rhetoric, for example, posed the following: "The question to be decided by your vote on this measure is whether you desire to give up the constitutional protection which guarantees you *uniform taxation*." In effect, an idea from the history of American wealth taxation was appropriated to

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<sup>101</sup> Roberts 1990, p. 257-63; Sanders 1992.

defend regressive fiscal principles. The income tax proposal was decisively rejected in both elections, losing by over a 4-1 margin in 1936 and a 2-1 margin in 1938. Meanwhile, votes on the 40-mill limit received broad support, in addition to the backing of most newspapers in the state. Revealingly, rural support for income taxation faded considerably in these elections, with some of the tax's largest defeats coming in the rural eastern part of the state.<sup>102</sup>

The example of Washington is useful in illustrating the fundamental weakness of income tax coalitions in many states: farmers worried about the property tax burden; urban workers worried about realty taxes on their homes and perhaps about adequate funding for unemployment relief; and groups dependent on state funding (government employees, teachers, and education groups) worried about the problem of revenue sufficiency. This coalition was fragile because none of the members were fully committed to income taxation as such. In each case, the governing theme was one of *relief* — whether from property taxes, unemployment, or fiscal strain. In Washington, the 40-mill property tax limitation undermined the income tax movement both by removing an important motive and by increasing the desperation of the search for alternative revenues. If one of these alternative revenues — notably, a general sales tax — could be enacted before the next political attempt at an income tax, the chances for a favorable income tax vote would be greatly diminished. And at that point, income taxation had nothing more than abstract principles to recommend it.<sup>103</sup>

### **Other examples**

The themes seen in the case studies of Oregon and Washington appear in several other states, sometimes with interesting variations. South Dakota provides a compelling illustration, with useful insights coming both from the contemporary analysis of Haig

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<sup>102</sup> Roberts 1990, p. 265, emphasis mine; also see p. 261-67 and 274-77; Sanders 1992.

<sup>103</sup> Roberts 1990, p. 238-40.

and Shoup and from Matthew Cecil's recent historical investigation focusing directly on partisan politics and fiscal decision making.

South Dakota was like many states in the North and West in swinging from Republican dominance during the 1920s to huge Democratic victories in the election of 1932. In that year the Democrats won the governorship and 29-15 and 68-34 majorities in the legislature — in effect, a complete reversal of the state's previous partisan alignment. As it would turn out, however, party labels had little effect on fiscal outcomes. In South Dakota, as in many other states, ideological differences between conservative and progressive wings within each party were more decisive than party affiliation itself. Fiscal politics, however, had a significant effect on party fortunes: tax battles during the 1930s seriously undermined Democratic credibility in the state, leading to a return of Republican dominance by the end of the decade.<sup>104</sup>

With incomes in South Dakota having declined nearly 70 percent from 1929 to 1933 and with one-fifth of the farm acreage on tax assessment rolls being delinquent, the political campaign of 1932 had been a government retrenchment bidding war. The victorious Democratic governor Tom Berry had made a point of appearing at most campaign rallies with an ax in hand. Although the Democratic Party had emphasized a progressive tax agenda based on ability to pay, the governor was more conservative in his orientation. What distinguished the progressive and conservative wings of the Democratic party was not the issue of economy in government or realty tax relief, upon which all sides agreed; rather, the distinction lay in the specific plans for replacement taxes. Although Berry had also emphasized the idea of ability to pay in his campaign, once in office he proposed very different fiscal devices than those being promoted by the party's progressive wing.<sup>105</sup>

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<sup>104</sup> Cecil 1996, p. 142.

<sup>105</sup> Cecil 1996, p. 138-42.

On the opening day of the 1933 legislative session, the governor proposed a gross income tax. The plan was opposed by progressives because it combined general sales taxation with a proportional income tax. Several competing tax plans were circulated in the legislature, notably an ore severance tax and a net income tax, the two favorites of the progressive wings in the legislature. A primary difficulty faced by the net income tax, however, was the confined scope within which it operated. In this sense, it was no different than most other net income taxes of the period. The federal income tax in South Dakota, for example, raised about \$1.2 million per year — well below the revenue target needed to address the state's budget deficit and to provide relief to the local system of property taxation. What emerged from the legislative deliberations was a variant of the governor's initial proposal. It included the following elements: the gross sales of most business sectors would be taxed at 1 percent; manufacturers and wholesalers at 0.25 percent; livestock producers and marketers at 0.50 percent; and wages and salaries at 1 percent on the first \$2000 of gross income, 1.5 percent on income from \$2000 to \$5000, and 2 percent thereafter. Progressive legislators had managed to include this small amount of progression in the rate structure; however, they lost the fundamental battle. The gross income tax as applied to individuals lacked the personal exemptions (typically about \$1000) that most state income taxes included and that had the effect of exempting the vast majority of the population. If implemented according to the statute, this would have been a true mass tax, one unique to the era. Support for the gross sales and income tax came from the conservative wings in the party, aided by Governor Berry's aggressive use of patronage appointments to win key legislative battles. Revenues were estimated to be \$10 million, enough to eliminate the state's 4-mill property tax and to reduce local school taxes by about a third.<sup>106</sup>

The revenue projections turned out to be wildly off target, because the new tax encountered significant difficulties on administrative and legal fronts. The rollout of the

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<sup>106</sup> Cecil 1996, p. 146-51; Haig and Shoup 1934, p. 270-78.

tax — especially the portion dealing with the taxation of individual incomes — was plagued with confusion and administrative missteps similar to those seen in Washington. Many taxpayers were confused about the provisions of the tax, and communications issued from the state were often poor. In addition, the administration of the tax was based ultimately on self-reporting of income without the kinds of cross-checks used in more successful income taxes in other states. Perhaps the most fundamental problem was the overextended reach of the tax. Taxing the gross income of the lower half of an income distribution is an expensive endeavor relative to the revenue yield, especially within the administrative and technical context of the 1930s. The misguided effort yielded ridiculous horror stories in the press about poor taxpayers who spent more on postage to mail their quarterly returns than they paid in taxes to the state. Even though the new tax system had more in common with general sales taxation (in essence, it was a gross receipts tax applied to all businesses and individuals), the popular experience with the tax was heavily tilted toward its income-tax component. This experience served to deepen public opposition to income taxation.

On the legal front, the tax faced two challenges. The first dealt with whether the legislation could be challenged in a referendum (the legislature had not passed the bill with the requisite two-thirds super-majority). This issue resulted in a strained 3-2 state supreme court decision that foreclosed such a challenge. Critics of the decision, including the two dissenting judges, argued that the majority opinion effectively rendered every revenue measure non-referable. The new law was also challenged for taxing interstate commerce. This challenge was successful, invalidating any portion of the tax on receipts from interstate commerce. Also immunized from taxation was any gross income obtained through a source other than the taxpayer's main business or occupation. These decisions further complicated the administration of the tax and cut into the tax base considerably. As a result, the administration's revenue projections were cut in half, dropping from \$10 million to \$5 million. As it turned out, actual revenues were much lower than even the revised projections. During the first year, the

tax yielded \$2.25 million. One consequence was that significant realty tax reductions failed to materialize.<sup>107</sup>

The conflicts between the progressive and conservative wings of the Democratic party emerged publicly in the 1934 nomination battle for the governor's office, with Berry managing to fend off an intra-party challenge in the primary and then to win the general election. As a result of the difficulties with the 1933 gross sales and income tax, fiscal reform remained a central issue in 1934. Berry and the conservative factions from both parties called for a revamped gross income tax, while progressives advanced both a net income tax and higher ore severance taxes. The compromise package that emerged from the negotiations, and that was ultimately enacted, was a 4 percent tax on refined ore, a progressive net income tax with a top rate of 8 percent, and a 2 percent retail sales tax — in other words, income taxation and general sales taxation in their common variants, rather than the previous year's unusual combination of a backward-looking general sales tax (with its multi-sector structure and relatively low retail rate) and a forward-looking, though poorly implemented, mass income tax. As before, a core problem for progressives was that their net income tax failed to produce much revenue (less than \$500,000 in 1936, for example). In comparison, the retail sales tax generated 6 times as much as the income tax in 1936 and 5 times as much in 1942.<sup>108</sup>

Partly as a result of the battles over fiscal policy and of the botched experiment with mass income taxation in 1933, the Democratic Party fared badly in 1936. The Republicans Party reassumed the governorship and nearly reversed the legislative majorities previously held by Democrats. In 1938 politics in the state took an even sharper conservative turn, with increasing dominance by the Republican Party's conservative wing. In contrast to nearby states like North Dakota and Minnesota, which established Democratic parties that remained highly competitive beyond the 1930s, South Dakota would be dominated by the Republican Party.

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<sup>107</sup> Cecil 1996, p. 153-54; Haig and Shoup 1934, p. 270-78.

<sup>108</sup> Cecil 1996, p. 157-63.



This political trend found expression in fiscal policy. The new Republican Governor Leslie Jensen was ostensibly a progressive sympathetic to the net income tax; however, the legislative outcome in 1937 was mostly a continuation of prior developments. Jensen and various progressive groups called for more progressive rates in the income tax, but these proposals did not succeed, in part because many progressives focused their energy on raising the rate of their pet ore severance tax, and some of them actually voted against Jensen's plan to adjust income tax rates. In spite of the lip service paid to progressive fiscal ideals, the legislature approved an increase in the retail sales tax rate from 2 percent to 3 percent — with some support coming from the progressive wings of the two parties.<sup>109</sup> In effect, fiscal politics in South Dakota paralleled the developments described by Mark Leff on the federal level: the political system provided a largely symbolic discussion featuring the ability to pay standard, progressive income taxation, and ore severance taxation, but the heavy lifting was done by a regressive retail sales tax. A few years later, in 1943, the income tax was eliminated altogether.<sup>110</sup>

Although South Dakota's fiscal politics in the 1930s did include calls for progressive taxation, the effectiveness of such ideas — to the extent that they were genuine and not merely symbolic — was severely constrained by three factors. First, the driving force for many income tax supporters was realty tax relief rather than progressive taxation as such; depending on the timing of events, this dependency ran the risk of undermining the income tax movement if realty relief were achieved through some other tax instrument first. Second, in South Dakota as elsewhere, the cramped vision of progressive income taxation — specifically, the fixation on the rich and the corporate, along with the corollary unwillingness to broaden the tax to include the affluent upper half of the income distribution — meant that the income tax ultimately lacked the revenue capacity to offer a viable remedy for the core problems of the day: balancing the state budget and providing relief from local realty taxes. Third — and this was

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<sup>109</sup> Cecil 1996, p. 164-66.

<sup>110</sup> Cecil 1996, p. 167-68.

particular to South Dakota's case, with some parallels to the Washington story — the 1933 gross income tax undermined the credibility of income taxation, both because of botched administration and, even more fundamentally, because the tax had more in common with the motivations of general sales taxation, due to its nearly proportional rate structure and its misguided insistence on applying an income tax to all citizens.

A few examples from other cases can be cited briefly to add to the themes already mentioned in the discussion of Oregon, Washington, and South Dakota:

- The case of Oklahoma provides an illustration of a dynamic governor, William H. Murray, who campaigned on the issue of realty tax relief and who advanced an ability to pay standard in his run for office. He proposed a corporate income tax, along with a higher and more progressive rate structure for the state's individual income tax, which had been on the books since 1915. However, these plans failed to achieve legislative support, and the governor ultimately resorted to supporting a retail sales tax in order to meet budgetary goals. As in many other states, this tax was enacted as an emergency measure immune from referendum. Revenues from the tax were dedicated almost entirely to school funding, 50 percent of which was channeled directly to local school districts in order to reduce their property tax levies.<sup>111</sup>
- In Utah, as in South Dakota and Oklahoma, a constrained income tax was adopted (in 1931) before general sales taxation; however, the revenue was too low, partly because of weak administration and high rates of evasion. A high-rate retail sales tax filled the fiscal void in 1933. In the ensuing decades, retail sales taxation in Utah typically generated twice as much revenue as the state's corporate and individual income taxes. As in many other states, Utah's tax was explicitly framed as a tax on consumers, with retailers as collectors. In this

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<sup>111</sup> Haig and Shoup 1934, p. 199-205.

particular case, one of the concerns was a state constitutional provision that limited taxes on incomes to no more than 6 percent. If the retail sales tax had been a de jure tax on merchants, rather than a consumer tax, the combined effect of all of the state's taxes might have run afoul of that provision.<sup>112</sup>

- Finally, the example of Kentucky is illustrative, because it provides a superficially inverted version of the events in Washington. Kentucky was like Oregon and Washington in having an extended record of trying to adopt income taxation during the 1910s and 1920s. The events in 1932 and 1934 were familiar: a worsening fiscal crisis fed by both the economic depression and a property tax limitation; both income taxation and sales taxation were debated in the legislature; a compromise package emerged consisting of both a net income tax and a 3 percent retail sales tax; and this package seemed likely to pass. However, late opposition, especially from urban areas, resulted in a defeat for the income tax in the Senate, while the sales tax was adopted. At this point, the story is loosely similar to Washington's, minus the drama at the state supreme court: a state that seemed inclined to favor income taxation instead ended up with a sales tax. The sales tax, however, had been a hotly contested issue, featuring a large, well-organized march by retailers on the capitol. The issue remained contentious during the 1935 gubernatorial campaign. In 1936 the legislature repealed the sales tax with nearly unanimous votes and then passed a comprehensive fiscal reform package that had been drafted by a governor's commission. The plan ultimately adopted by wide margins in the legislature included a revision of the property tax, a personal income tax, a corporate net income tax, a revised inheritance tax, and various selective sales taxes. A final twist to this seeming victory for income taxation comes from the tax reliance data — again emphasizing the important distinction between policy adoption and policy utilization. Even if we exclude motor fuel taxes, Kentucky relied very heavily on

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<sup>112</sup> Haig and Shoup 1934, p. 303-9.

its selective sales taxes and used its individual and corporate income taxes only to a moderate degree. Not until 1957 would Kentucky's income tax revenues exceed its non-motor fuel selective sales tax revenue; and shortly after that (1960), the state adopted a general sales tax.<sup>113</sup>

### **The hybrid outcome as political compromise: California**

The examples of states like Oregon, Washington, and South Dakota illustrate the complexity that lies behind the seemingly clear-cut distinction between states that exited the 1930s having adopted only income taxes or only general sales taxes. As those cases demonstrate, many states that ended up in one camp seriously considered the alternative. Given the contingency of those outcomes, it is not surprising that many states ended up in the middle, having adopted both taxes (recall Table 23). In some instances, the mixed outcome was an explicit political compromise arranged between the advocates of income taxation and sales taxation. California provides a compelling example in this vein.

### **Review of developments during the 1920s**

As detailed in Chapter 6, California had undergone a radical fiscal transformation in 1910: the state government largely abandoned the general property tax and instead relied on various corporate taxes, notably a gross receipts tax on railroads and other public service corporations; those corporations subject to the new state-level taxes then received exemptions from the local general property tax; and local governments could levy the general property tax against the non-operative property of such corporations (primarily realty), but not against their operative property.

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<sup>113</sup> Lockyer 1955.

This new system was hardly without difficulties, and concerns about it grew in intensity during the 1920s. Those concerns were examined in Chapter 8 but are worth summarizing here. There were conflicting perceptions about the revenue capacity of the new fiscal system: to some observers, the state remained plagued by insufficient resources to meet urgent expenditure needs; in the eyes of others, the problem was fiscal extravagance driven largely by the pernicious effects of the instruments of direct democracy in a fiscal structure based heavily on taxes that were not borne directly by the electorate. Another problem was systemic inflexibility: a large percentage of expenditures were beyond legislative control, since they were predetermined by constitutional or prior electoral mandates. Developments in California also illustrated the illusory nature of one of the pillars of Progressive-era fiscal reform — namely, separation of sources. State and local budgets and functions had become so intertwined that nominal separation — declaring one set of taxes for state government and another for local government — had less practical effect on aggregate outcomes than had been hoped. In particular, durable property tax relief had not materialized: as the state government vacated the field of property taxation, localities simply consumed the slack. At the same time, a significant share of the state budget effectively became the local budget, as various constitutional and statutory commitments were made to particular spending areas that had historically fallen under local purview, notably education and roads. In addition, the state fiscal system was troubled by a variety of balancing or equity problems. Having been expressly designed to replace the general property tax, the new state taxes on corporations carried an implied mandate to equalize the effective tax rate on corporate wealth and the general property tax rate on common property taxed locally. Another problem along such lines was the exemption of the operative property of railroads and public utilities from local property taxation, which spawned many political, legal, and administrative battles over the classification of particular types of property as either operative or non-operative. In addition, the usual problems persisted: underassessment and equity considerations among various business sectors.

By 1929, a commission appointed to study California's fiscal system was ready to start from scratch and shift to a different model altogether. The commission declared current arrangements to be completely flawed and recommended that the system of business taxation — based explicitly on gross receipts but implicitly on property value — be converted to a net-income basis. In addition, the commission recommended a personal income tax and a reduction in property taxes. In effect, such recommendations represented the other variant of Progressive-era fiscal reform: corporate and elite income taxation rather than special property taxation. The circularity of the reform logic was obvious. As Stockwell notes, nearly all of the arguments used in California to endorse separation of sources and the other Progressive-era reforms were deployed in the critiques of the system during the late 1920s and early 1930s.<sup>114</sup>

Set against this growing critique were several ideological and political developments. During the 1910s and 1920s, California's fiscal politics — like those in many other states — became markedly more liberal, with many interest groups making competing claims on the fisc and with tax burdens rising considerably. At the same time, however, fiscal discourse remained conservative in its rhetorical trappings and in many of its underlying ideological commitments. California politics during the 1920s witnessed a growing mobilization against — and disillusionment about — fiscal expansion, as conservative critiques of government growth gained resonance for many voters and interest groups. Calls for retrenchment and for pay-as-you-go financing became more common in political discourse. A leading role in this counter-movement was played by the corporations that had successfully exchanged the threat of a vigorous general property tax for the new array of corporate and income taxes during the Progressive period. Such corporations allied with taxpayer organizations, chambers of commerce, real estate groups, and property owners generally to form an anti-tax movement advocating economy and efficiency in government. As discussed above in connection with

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<sup>114</sup> Stockwell 1939, p. 41.

developments on the federal level, this campaign also pursued an entirely different set of tax instruments — a movement away from property taxation and its direct descendents (special corporate taxes, elite income taxes, and inheritance taxes) and toward general sales taxation. The ideological goal was to widen taxpaying status, which not only had the immediate benefit of shifting tax burdens away from the most progressive instruments, but also took a step toward addressing the deeper political problem — namely, the fiscal extravagance that was thought to result from the combination of electoral democracy and a fiscal structure based on elite taxation.

### **Reform of business taxation**

The first major step away from the Progressive-era reforms occurred in 1929 as part of an effort to reform business taxation. Prior to the Bank and Corporation Franchise Tax of 1929, the state did not have a comprehensive system of business taxation; instead, there was a mix of taxes with varied bases, many of them either framed as property taxes or levied in lieu of them. Several areas need to be considered to understand the impetus behind the 1929 reforms.

The most prominent area of business taxation during the first few decades of the twentieth century was the gross receipts tax applied to utilities as part of the 1910 reform package. A secondary area was a set of license and franchise taxes that dated from 1905 and 1910. The license tax of 1905 had started as a \$10 annual fee for all corporations and was expanded into a graduated levy based on the par value of authorized capital stock. The invalidation of these taxes in 1927 by the state supreme court was one of the factors that spurred the 1929 reforms. The franchise tax of 1910 was another minor business tax in California's system. It was based on the notion of "corporate excess" — that is, the market value of a corporation's capital stock minus the value of any locally taxed real estate and machinery. The franchise tax impose a 1 percent levy on the value of this corporate excess, with the value to be determined by

the State Board of Equalization. Because this tax depended directly on the valuation process inherent in the general property tax, it experienced the same sorts of administrative and political challenges — providing another impetus behind the 1929 reform of the state's system of business taxation.

Yet another set of concerns dealt with the taxation of banks and intangibles. State taxation of banks was often hedged in by federal limitations on the methods that could be used to tax national banks. The 1910 reforms, for example, had adopted a tax on the value of bank shares, because that was the only method that Congress had authorized at the time. In addition, Congress mandated that the rate of the tax on national bank shares could not exceed the rate imposed on other "moneyed capital." In effect, the federal regulations expressed the familiar idea of property tax uniformity. One implication was that as states moved away from general property taxation and toward tax classification, they risked running afoul of the federal requirements. For example, California's 1910 fiscal reforms had exempted mortgages from personal property taxation. Additional changes in 1917 created distinctions between domestic and foreign (out-of-state) securities. Domestic securities received tax exemption to the extent they represented tangible property already taxed under the state's property tax. In 1921, a U.S. Supreme Court decision (*Merchants' National Bank v. Richmond*) broadened the understanding of other moneyed capital to include not just shares of banking and trust companies but also investments in bonds, notes, and other forms of indebtedness that materially competed with national bank shares in financial markets. This decision opened the door to lawsuits by national banks in any states that had adopted classified tax systems giving favorable rates to intangible assets relative to those imposed on national bank shares. One such challenge resulted in the California Supreme Court's overturning of various tax laws in 1927, the upshot of which was that the taxation of intangibles reverted to the old system of being taxed at full cash value under the



procedures of the general property tax — in effect, undoing a significant part of the Progressive reform package.<sup>115</sup>

In response to these interconnected difficulties, the state developed a new system of business taxation. The new system, which was initially implemented in 1929 and would be further refined in 1935, represented a more full-fledged shift in the taxation of business away from a property basis and toward an income basis. The old license and franchise taxes had been property taxes in a direct sense, and the gross receipts tax on utilities had been a tax in lieu of property taxes that carried an implied, but strong, mandate of equating burdens with the remaining property tax system. The new plan of business taxation envisioned a system of corporate taxation based on net income, along with the ultimate abandonment of personalty and intangibles taxation. The plan included a period of transition, during which an offsetting mechanism would be used: up to 75 percent of the amount owed on the new franchise tax could be offset by personal property taxes already paid and by up to 10 percent of realty taxes paid. The offsets were to be phased out by 1933. The Bank and Corporation Franchise Tax of 1935 further refined the system, effectively implementing a corporate net income tax on all corporations except insurance companies, nonprofits, and some holding companies. The new system even applied to banks because, in response to the *Richmond* decision, Congress had authorized the taxing national banks based on shares, dividends, or net income. Thus, one direction of fiscal reform in California during the Great Depression was to pull the system of business taxation more fully away from its roots in the general property tax and instead to implement a system based on net income.<sup>116</sup>

### **General sales taxation**

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<sup>115</sup> Seligman 1895, p. 203; Stockwell 1939, p. 125-28, 132-37, 140.

<sup>116</sup> Stockwell 1939, p. 140-44.

Another set of reforms adopted during the early 1930s was more substantial from a revenue perspective — namely, the adoption of general sales taxation. In California, as in many other states, sales taxation emerged not only out of crisis, but as part of a broader, long-running campaign to alter the fiscal system. Rather than being merely an external economic force, the crisis was a political opportunity to overturn the old system.

General sales taxation was part of a larger reform package known as the Riley-Stewart Plan of 1933. A similar plan, Proposition 9, had been rejected by voters the previous year by a 2-1 margin. As elsewhere, the driving motivation was reducing local property taxation. Under Proposition 9, the state government would have assumed county education costs. The revenue to meet this new expenditure would have come from an income tax and selective sales taxes. Opposed by public utilities and urban real estate groups, Proposition 9 had been popularly interpreted (or misinterpreted) as providing for a substantial increase in education spending. The year after the defeat of Proposition 9, in the 1933 legislative session, the proposal that received the most attention was one that had been initiated by Ray Riley, the state controller, and Fred Stewart, director of the Tax Research Bureau and member of the Board of Equalization. Although the plan that ultimately emerged from a complex legislative process was a different than the initial Riley-Stewart plan, the name stuck. Like Proposition 9, the Riley-Stewart plan represented an abandonment of the 1910 model based on separation of sources. The gross receipts taxes on public service corporations were eliminated, and the operative property of such corporations, although still centrally assessed by the State Board of Equalization, was to be returned to local tax rolls, expanding their tax bases by roughly a sixth. This plan would provide tax relief to real estate in two ways: by expanding the local tax base, as noted, and by relieving the counties of their education costs. The plan also included limitations on expenditure growth for both state and local government: the state could not increase appropriations more than 5 percent per year without a two-thirds majority in the legislature; and local jurisdictions could not increase spending by

more than 5 percent without approval either by a two-thirds majority of voters or by the State Board of Equalization. Tellingly, within just a few months, more than 800 school districts had petitioned the board to exceed their limits.<sup>117</sup>

After the Riley-Stewart plan was approved by voters in June 1933, a sales tax was assumed to be inevitable in the legislature. The revenue demands imposed on the state were considerable: an estimated \$60 million in foregone gross receipts taxes on public service corporations, plus \$80 million in new education funds to aid county governments. Although political insiders may have perceived the tight connection between the Riley-Stewart vote and sales taxation, it is not clear that the most voters knew exactly what they were getting when they voted for the plan. The text of the ballot measure, for example, had allowed for either a sales tax or an income tax to meet the state's new revenue needs. In any case, after the Riley-Stewart plan was adopted, sales tax legislation proceeded quickly. Although the legislature did consider other alternatives — such as a gross receipts tax or a broadening of the state's system of specific excise taxes — the proposal that emerged with the most support was a 2 percent retail sales tax. The supporters of the Riley-Stewart plan and of the retail sales tax were fairly typical: real estate groups, led by the California Real Estate Association; the governor, most legislators, and the state's fiscal officials; public utilities and large manufacturers; school interests, notably the California Teachers' Association; and the state's leading newspapers. Likely opponents of retail sales taxation did not mobilize very effectively. Consumers had no organizing presence, and the statewide retailer organization was only a year old. The Grange, the Farm Bureau, and farmers generally preferred income taxation but agreed to accept a sales tax, provided that it was accompanied by an income tax. In response to this pressure, the package that emerged from the legislature included both a retail sales tax and a personal income tax (the state already had the beginnings of a corporate income tax as a result of the 1929 reform of business taxation). The speed with which the legislature passed the sales tax also

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<sup>117</sup> Haig and Shoup 1934, p. 288-98; Stockwell 1939, p. 7-8, 26-7, 163-65, 183-87; Oster 1957, p. 27-28.

inhibited the formation of an effective opposition: only 3 months elapsed from the time the plan was endorsed by a Senate committee until ultimate approval by the governor in July.<sup>118</sup>

As in other states, retailer opposition was muted by the effective framing of the retail sales tax as a consumer tax. The political campaign frequently emphasized to retailers the ease with which the tax could be shifted. In addition, during the legislative process, language was added to the bill mandating that the tax be paid by consumers and making it illegal for retailers to advertise that they were absorbing the tax on behalf of customers. This theme was carried forward into the early administrative rulings on the tax. For example, the State Board of Equalization decided that the tax could not be folded inconspicuously into the price; instead, it had to be invoiced as a separate charge. To implement this decision, retailers displayed tax schedules at cash registers: no tax was charged for purchases of 14 cents or less; 1 cent was charged for purchases from 15 to 59 cents; and so forth. However, this system was overturned by the state supreme court, on the grounds that a 1 cent tax on a 15-cent purchase represented a 6 percent tax. After this decision, the State Board of Equalization required the use of eighth-cent tokens, which allowed for more precise tax payments.<sup>119</sup>

The framing of the retail sales tax as a consumer tax did not represent mere political expediency — though that was important. It also illustrated the victory of a fiscal ideology. In the California debate, sales taxation was justified on a various grounds. Perhaps the most fundamental was the idea that proportional taxation — the same rate applied to all purchases — was inherently just. Another key idea was the benefit principle of taxation — that is, the idea that taxes represent payments for specific benefits received from government. State Controller Ray Riley, one of the leading sales tax advocates, emphasized this principle by linking the new sales tax to the plan for increased state contributions to local school finance. In this light, the sales tax was

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<sup>118</sup> Stockwell 1939, p. 168, 201-3, 219-220; Haig and Shoup 1934, p. 288-98.

<sup>119</sup> Stockwell 1939, p. 203, 212-5.

couched as a school fee. Future governor Frank Merriam used this argument in defending the tax:

I would like to call this a "school tax" for it is dedicated to the payment of the expenses of the schools of California. I know there is opposition to it. I know it is a nuisance and that it puts a tax on some of the poorer people and small taxpayers, because it is on the amounts that are purchased. But I am convinced also that everyone, no matter how poor he may be, should make some little contribution to education in the State.<sup>120</sup>

Proponents also praised the sales tax's ability to broaden fiscal burdens, taxing citizens who would not otherwise directly pay for state government, thus raising tax consciousness and keeping fiscal extravagance in check. This line of thought was directly descended from the conservative critique of California's fiscal system during the 1920s — namely, that many members of the electorate did not directly pay state taxes, but they nonetheless had the power, through their votes in referenda and initiatives, to impose binding fiscal decisions.<sup>121</sup>

Although the sales tax proceeded fairly easily through the political system and received widespread support from establishment groups, opposition to the sales tax increased rapidly as it was implemented. This opposition, which included discussion of a repeal effort, was fueled by two factors: first, outgoing Governor James Rolph had pocket-vetoed the income tax, a move viewed by several groups, notably farmers, as a violation of the political compromise reached by the legislature when it passed both a retail sales tax and a personal income tax; and second, the local property tax rate failed to decline in 1933 and 1934, as counties simply consumed the slack fiscal resources left by the recent changes in state policy. Opposition to the sales tax was promoted by Upton Sinclair's run for governor in 1934, under the "End Poverty in California" platform (EPIC). Although he was defeated decisively, Sinclair nonetheless won nearly 900,000 votes in a

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<sup>120</sup> Stockwell 1939, p. 205.

<sup>121</sup> Stockwell 1939, p. 202-5.

progressive campaign that devoted considerable attention to the regressivity of the sales tax.<sup>122</sup>

The political dynamic seen in California — namely, a rough political accommodation through the adoption of both income and sales taxation — was seen in other states.

- Arizona, for example, experienced not only a collapse of the state and local property tax system, but also a radical drop in taxes from copper mining companies, which had paid nearly 40 percent of state taxes before the Depression. The legislative response in 1933 was a tax package that included specific sales taxes on malt, liquor, and tobacco; an intangibles tax; a personal and corporate net income tax; and a multi-sector general sales tax, from which the retail component would prove to be the dominant revenue producer. The fiscal reforms were passed as an emergency measure immune from referendum; in addition, the sales tax was declared to be temporary (none of the other new taxes were).<sup>123</sup>

- A hybrid outcome in North Carolina emerged not so much through policy adoption during the 1930s as through usage. North Carolina experienced one of the most bitterly contested political battles over sales taxation. The state had already adopted an income tax in 1922, and it had been the state government's leading revenue device. Unlike Wisconsin, for example, which hardly considered sales taxation and instead endured the economic depression by building upon its existing income tax, the North Carolina political system battled for two years over the issue of a general sales tax, ultimately adopting a 3 percent retail sales tax and a 0.04 percent tax on the gross receipts of manufacturers. As in many other states, the campaign for the sales tax in North Carolina was closely tied to the issues of realty tax relief and education finance. In the minds of education

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<sup>122</sup> Stockwell 1939, p. 204, 217-19, 242; Haig and Shoup 1934, p. 288-98.

<sup>123</sup> Haig and Shoup 1934, p. 282-88.

reformers, the issues were inseparable, since they viewed the local property tax as an unstable funding source for education. Although groups representing farmers in the tobacco belt argued for an income tax because they felt that the comparatively rich Piedmont industrial area could afford to bear higher burdens, the balance of power in the state ultimately tipped toward the regressive solution. As usual, the retail sales tax included provisions directing the commissioner of revenue to adopt regulations under which retailers would explicitly collect the tax from consumers. That was not the end of the story, however. Political support for income taxation remained strong in the state. As a result, North Carolina was unusual in maintaining a roughly equal balance, lasting through the 1940s and beyond, between its reliance on general sales taxation and its reliance on personal and corporate income taxes.<sup>124</sup>

In California, the accommodation between sales and income taxation had been broken by the governor's veto; however, in the 1935 legislative session, there was strong momentum for a personal income tax, partly because the state was facing revenue shortfalls in spite of the new retail sales tax. In addition, the surprising political success of Upton Sinclair's EPIC campaign was probably a factor in winning grudging acceptance of income taxation from conservative groups in the state, as a way to prevent more radical alternatives. Although the nominal rate structure was quite progressive, ranging from 1 percent to 15 percent, California's new income tax turned out to be partly an exercise in symbolic politics — and thus was more representative of the typical outcome than the truly mixed result seen in North Carolina's record of tax reliance. When the California income tax was adopted, the 2-mill intangibles tax was eliminated and the sales tax rate was raised, so it is not clear that the total legislative package represented a step toward a more progressive system. California's long-term tax reliance pattern mimicked those of other states that had adopted both income and general sales taxes:

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<sup>124</sup> Haig and Shoup 1934, p. 186-98.

during the 1940s and 1950s, the general sales tax typically raised twice as much revenue as the combined individual and corporate income taxes.<sup>125</sup>

### **Total victory for sales taxation: Michigan and the industrial Midwest**

In the cases examined so far, we have seen outcomes ranging from complete avoidance of general sales taxation (notably in the Northeast), through the closely fought and highly contingent outcomes in states such as Oregon and Washington, to the mixed outcomes in California, Arizona, and North Carolina. Another group of states — in fact, a cluster of them in the industrial Midwest — experienced more decisive political victories for general sales taxation (recall Table 23). Most of the discussion in this part of the chapter will explore Michigan's adoption of a retail sales tax in 1933; before turning to Michigan, however, a few other examples from the Midwest are worth noting:

- In Ohio, even though the sales tax was highly contested and faced considerable opposition from a retailers, the income tax alternative never gained much political momentum. The state legislature was closely balanced between the parties, and several sales taxes were considered in the early 1930s, with the greatest effort placed behind the governor's 1933 plan. He initially called for various new and increased selective sales taxes, but he later proposed a plan for a retail sales tax and a personal income tax. However, well-organized retailers lobbied to keep the sales tax issue confused and to push for an awkward coupon plan for payment of the tax, which had the effect of making public opposition even stronger. As a result, major new taxes were not adopted in 1933. The next year the state's budget situation was even more dire, since the voters had approved a property tax limitation in November 1933. This added pressure, combined with a more effective framing of the retail sales tax as one easily

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<sup>125</sup> Stockwell 1939, p. 204-5, 239, 244-49.



shifted to consumers, led to the successful adoption of a retail sales tax in 1934.<sup>126</sup>

- The scenario in Indiana was broadly similar. In 1932 the legislature had adopted a property tax limitation measure cutting in half the state rate on property, and an income tax amendment had been defeated recently at the polls. In 1933 the state enacted a tax on gross income from all sources, including salaries, wages, and investment income: 0.25 percent on manufactures, wholesalers, farmers, and extractors; and 1 percent on all other sectors and on individuals, with each taxpayer receiving a \$1000 exemption.<sup>127</sup>
- Illinois was the state in the industrial Midwest that came the closest to adopting an income tax. The legislature and governor had approved an income tax in 1932; however, the state supreme court overturned it on uniformity grounds. The political victory for income taxation in 1932 was perhaps the exception to the broader pattern of fiscal politics in Illinois during the first half of the twentieth century. The state had resisted many of the Progressive-era fiscal instruments: income taxation, special property taxes on corporations, and property tax classification. In addition, income taxation faced considerable opposition from most of the major organized political groups and from the Chicago press, with the primary exceptions being farmers and education interests. The breakdown of assessment procedures in Cook County was a critical driver in pushing the state to adopt a major new tax in April 1933: it was a 2 percent retail sales tax, adopted as a temporary measure (it eventually became permanent), with revenues dedicated to localities, and containing explicit provisions mandating that the retail tax be passed on to consumers as a separately invoiced charge.<sup>128</sup>

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<sup>126</sup> Oster 1957, p. 30-32; Haig and Shoup 1934, p. 264-70.

<sup>127</sup> Oster 1957, p. 25-26; Haig and Shoup 1934, p. 237-45.

<sup>128</sup> Haig and Shoup 1934, p. 225-37; Oster 1957, p. 28-29; Bennett S. Stark 1982, p. 14, 230-31.

### **The Michigan story begins: an old problem and an inconclusive study**

In December 1930, less than three months before the Michigan legislature would consider its first sales tax proposal, the nine-member State Commission of Inquiry into Taxation made the following assessment: "our governmental and taxing machinery, designed to meet the requirements of a nineteenth century agricultural state, is totally inadequate to meet modern conditions." The commission seemed conscious of the historical irony in its making such a statement: the state's two previous tax commissions had reached similar conclusions. The fiscal problem that Michigan confronted in the early 1930s was not new; nor was the commission's assessment.<sup>129</sup> During the first three decades of the twentieth century, Michigan had tried to reform its general property tax system as many other states had done, mainly through tax classification. Instead of grouping all wealth under the broad rubric of property, different classes of property had been separated into their own categories, with their own systems and rates of taxation.<sup>130</sup>

As a result of such reforms, Michigan's tax structure evolved in a manner typical of other Midwestern states. The state government began the twentieth century relying heavily on the locally administered general property tax. As a result of tax classification and various other Progressive-era reforms, the state's fiscal structure diversified moderately during the 1910s. For example, by 1922 the general property tax accounted for only 62 percent of state tax revenue, with the other major categories being special property taxes and license taxes (16 percent each). During the 1920s, the state government's

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<sup>129</sup> Michigan appointed several special commissions of inquiry into taxation during the first four decades of the twentieth century. The following have been used for this chapter: Michigan. Commission of Inquiry into Taxation 1911a; Michigan. Commission of Inquiry into Taxation 1911b; Michigan. Legislature. Michigan Committee of Inquiry into Taxation 1923; Michigan. State Commission of Inquiry into Taxation 1930a; Michigan. State Commission of Inquiry into Taxation 1930b; Michigan. Tax Study Commission 1938; Michigan. Tax Study Commission 1939. The quotation is from Michigan. State Commission of Inquiry into Taxation 1930a, p. 7.

<sup>130</sup> Ellis 1991, p. 16.

revenue structure shifted dramatically toward auto-related taxation. In 1927, for example, a third of the state's tax revenue came from motor fuel taxes, auto licenses, and driver licenses. Thus, by the time the Great Depression started, the general property tax supplied just under half of state tax revenue in Michigan — still a substantial share, but not the dominating role that it had played three decades earlier. As in most other states, Michigan's general property tax had taken further steps toward becoming a de facto realty tax. This problem was nothing new. In 1901, for example, 76 percent of general property tax revenues came from realty, a figure that considerably overstated realty's share of the state's actual taxable wealth. By 1932, the share of property taxes coming from real estate had increased to 83 percent — not a dramatic increase, but the fiscal trend was almost certainly running counter to the underlying economic trend in the composition of wealth holdings. In part, this divergence between fiscal practice and wealth composition was intentional. A byproduct of tax classification — which exempted special kinds of property from the general property tax in exchange for different methods of taxation, sometimes at lower effective rates — was that the remaining general property tax would be focused even more tightly on realty. Intentional or not, the result encountered increasing political criticism.<sup>131</sup>

The state had appointed tax commissions in 1911, 1922, and, most recently, 1929 to examine such problems. Because the 1929 commission was created before the onset of the Great Depression, the central problem it faced was the same as that of its forerunners: how to remedy the deficiencies of the general property tax, particularly its heavy reliance on real estate, which was believed to be overtaxed relative to other assets. As the commission's work progressed, the depression worsened. The economic downturn, along with the commission's historical awareness of prior failed attempts to solve the general property tax problem, gave the 1930 report a unique urgency.

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<sup>131</sup> Caverly 1933, p. 12. For additional details on state and local revenues and expenditures I have also used: Ford and Waxman 1942; treasury reports in bi-annual volumes of Michigan [various], 1929-1939; Michigan. State Board of Tax Administration 1933-1941; Michigan. Department of Treasury 1988; Blum 1982.

The commission's break with its predecessors can be seen clearly in the report's two central themes. The first was a commonplace idea — the need for economy in government, which was a standard recommendation from nearly every commission, government official, and politician who addressed fiscal problems during the 1920s and 1930s. The concrete meaning of the phrase, however, could vary greatly depending the underlying political agenda. Sometimes it simply meant increased efficiency and decreased waste, a goal to which everyone could subscribe. Others attached a wider meaning to economy in government, including the elimination of public services or the reconfiguring of governmental structures, proposals that could generate political disagreement. Although the commission did not offer a conclusive statement to resolve such conflicts, it did express the old theme of economy with a special emphasis, most likely because of the stress that economic depression was placing on state and local budgets.<sup>132</sup>

In the commission's treatment of the general property tax one can see its second deviation from the path charted by earlier commissions. It essentially admitted defeat in the old effort to achieve a truly general property tax, describing the attempt to tax intangible property as an "almost complete failure." The report recommended a state income tax as the only practical means "to force intangible wealth to bear its fair share of the tax burden."<sup>133</sup> One can exaggerate the change occurring here. An income tax, after all, could be interpreted as another form of classified taxation, under which income is used as a rough proxy for the value of property holdings — as, indeed, many of the early income taxes had been viewed during the 1910s and 1920s. But in the income tax one can see not simply an indirect effort to tax an old base (property value), but a different tax base altogether. In being willing to consider a new tax base, the commission was indicating that more aggressive efforts were needed to achieve the old goal of equalizing a tax burden that fell too heavily on real estate.

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<sup>132</sup> Michigan. State Commission of Inquiry into Taxation 1930a, p. 7.

<sup>133</sup> Michigan. State Commission of Inquiry into Taxation 1930a, p. 58.

If the 1929 tax commission was unique in recommending a new tax base, it was also unique in the degree of controversy within the commission itself — generated primarily by the income tax issue. The vote split "strictly according to the interests represented by the commissioners." Four of the commissioners were farmers. Rural organization like the Grange had long favored income taxation to reduce the tax burden on real property, in part because the readily taxed portion of the income of most farmers fell below the exemption levels that were typical of income taxes of the era. These four commissioners were joined by Representative Frank Wade, president of the Michigan Federation of Labor, in providing a bare majority for the commission's progressive income tax proposal. The other four commissioners had, or were closely connected to, industrial business interests. The discord within the commission was so great that two minority reports were issued criticizing the income tax for the negative effect it would have on the Michigan economy by increasing the cost of doing business and decreasing the incentives for capital investments.<sup>134</sup>

Public comment on the commission's three reports was not glowing with praise, except perhaps to add voices to the conventional wisdom calling for economy in government and real estate tax relief. The most prophetic evaluation of the commission's work, however, came from State Senator Fred Harding: "If nine men, working for two years, can't agree on an equitable tax system for the State of Michigan, what can you expect from 132 men, working for four months?"<sup>135</sup>

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<sup>134</sup> Quotation from *Michigan Manufacturer and Financial Record*, January 1, 1931, p. 9. For the voting and background of the tax commissioners see: Michigan. State Commission of Inquiry into Taxation 1930a, p. 92-3; Ortquist 1982, 94-5; *Detroit News*, December 30, 1930 (p. 1); and *Detroit News*, December 31, 1930 (p. 5).

<sup>135</sup> *Detroit News*, January 2, 1931 (p. 1). For evaluations of the 1930 commission see *Detroit News*, January 3, 1931 (p. 4); and *Michigan Manufacturer and Financial Record*, January 24, 1931 (p. 17). My reading of Michigan political events covered in the foregoing and subsequent sections is based, in addition to secondary sources cited elsewhere, on the following newspapers and journals (dates covered in brackets): *Proceedings of the Michigan Municipal League* [1931-1934]; Michigan Municipal League, *Michigan Municipal Review* [1928-1935]; Detroit Federation of Labor, *Detroit Labor News* [1930-1933]; Michigan Education Association, *Michigan Education Journal* [1931-1934]; Detroit Board of Commerce, *Detroit* [October 1932-October 1933]; *Michigan Manufacturer and Financial Record* [October 1930-October

### Interests divided: income and sales taxes in 1931

Judging from the controversy within the commission and from the public comment on its work, the ideas with the greatest momentum as the legislative session began in 1931 were not the specific tax recommendations of the majority report. They were, rather, the diffuse concepts of economy in government and real estate tax relief. Both candidates for governor in the November election, Republican Wilber Brucker and Democrat William Comstock, stressed these themes, but neither offered many specifics. Similarly, in his initial pronouncements as governor, Brucker did not offer a concrete proposal. He identified taxation as the first priority for the legislature and emphasized the importance of tax relief for real estate owners. But he added that "we must not be swayed by those who have unreservedly committed themselves for or against some pet scheme."<sup>136</sup>

Not everyone was content to strike such a detached pose. Many proposals to create new taxes or increase existing taxes circulated in the 1931 legislative session, most of them touted for their ability to reduce the state's levy on real estate.<sup>137</sup> The two most important from a revenue perspective were an income tax and a retail sales tax. The impetus for the former came, as could be expected, from rural interests. A farmer, Representative William J. Thomas, introduced two bills on March 30: a progressive personal income tax and a 4-percent net corporate income tax, which were projected to

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1933]; and *Detroit News* [the main political seasons: October 1930-May 1931, October 1932-August 1933]. I also made selective use of the following manuscript collections located in the Michigan Historical Collection, Bentley Historical Library, University of Michigan: William A. Comstock, Governor; Wilber Brucker, Governor; Edwin Blythe Stason, University of Michigan law professor and member of Comstock's tax advisory committee; Arthur J. Lacy, initial member of Comstock's tax advisory committee; Roy D. Chapin, Hudson Motor Company President. Finally, I have used the collection of William Palmer, member of the Senate Sales Tax Subcommittee, Archives of Labor and Urban Affairs, Wayne State University.

<sup>136</sup> *Detroit News*, January 1, 1931 (p. 1). Also see *Detroit News*, December 31, 1930 (p. 5) and January 8, 1931 (p. 1); and Ortquist 1982, p. 91.

<sup>137</sup> A summary of the various proposals is in *Detroit News*, April 22, 1931 (p. 11).

yield enough revenue to replace the state's portion of the general property tax.<sup>138</sup> Although Thomas was able to send both bills out of his General Taxation Committee, observers never doubted their ultimate failure in the Senate, particularly in the conservative, heavily-urban Senate Taxation Committee. In fact, the personal income tax bill passed the House without much debate because representatives knew it to be a dead letter. The tax on corporate incomes, meanwhile, fared even worse and was defeated in the House "with scarcely a struggle".<sup>139</sup>

The sales tax proposal met with no more success. The legislation was modified several times and ultimately become known as the McBride-Dykstra Bill. It was a retail sales tax with a progressive rate structure. The promoters of the bill, a group of retail merchants calling themselves the Home Defense League, hoped that the progressive rates would give a competitive advantage to small retailers. As with the income tax, observers predicted a token victory in the House but defeat in the Senate, because the urban legislators on the Senate Taxation Committee were "not expected to share the prevalent rural ardor for income and sales taxes." As it turned out — somewhat inexplicably if one follows the newspaper accounts — the bill failed to garner the needed votes in the House.<sup>140</sup>

These superficial renderings tell only a little about the political forces at play in the 1931 battles over taxation. The role of the governor in such matters was particularly important because of the office's position between taxpayers and interests that stood to

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<sup>138</sup> Thomas represented the rural third district in Kent County; Grand Rapids was in the county's populous third district. See *Michigan Manual*, 1931-1932, p. 297; and *Detroit News*, March 31, 1931 (p. 1). The legislative histories of the two income tax bills, HB 423 and HB 424, can be followed in the *Journal of the House of Representative of the State of Michigan* and the *Journal of the Senate of the State of Michigan*.

<sup>139</sup> *Detroit News*, April 30, 1931 (p. 20). Also see *Detroit News*, March 20 (p. 1), March 31 (p.1), April 1 (p. 4), April 5 (p. 1), April 9 (p. 1), and the last two week of April, 1931; and *Michigan Manufacturer and Financial Record*, February 21 (p. 6) and April 4 (p. 14), 1931.

<sup>140</sup> Passage required 51 votes; the tally was 48 for and 47 against. Quotation from *Detroit News*, April 10, 1931 (p. 12). For highlights of the 1931 sales tax see: *Journal of the House*, part 1, 855-8; *Detroit News*, January 16 (p. 18), January 28 (p. 19), March 18 (p. 12), March 26 (p. 19), April 9 (p. 1), April 17 (p. 14), and April 23 (p. 1), 1931; and *Michigan Manufacturer and Financial Record*, February 21 (p. 6) and April 4 (p. 14), 1931.

benefit from greater and more reliable state revenues. While these two political pressures pointed in different directions on the score of economy in government, they converged in the other prominent tax theme of the early 1930s, real estate tax relief: owners, of course, had strong reasons to favor lower property taxes, especially if a weak cash position left them lacking the funds to pay taxes and facing the threat of foreclosure; the high rates of delinquency, meanwhile, caused tax collectors and spenders to view the property tax as unreliable. Strong public sector interest in finding a stable replacement for, or supplement to, the property tax was expressed throughout the period by political and administrative leaders, as well as by publications like the *Michigan Education Journal* and the *Michigan Municipal Review*.<sup>141</sup>

To understand public sector involvement in the politics of taxation, and particularly its relation to the governor's office, one must note that Michigan's administrative structure did not grant the governor an unchallenged role as leader of the bureaucracy. Many appointive posts carried terms longer than two years; every governor, therefore, worked with some administrative leaders of his predecessors. Moreover, the top government posts (Secretary of State, Attorney General, State Treasurer, and Auditor General) were elective offices, giving these positions a political base independent of the governor's favors. In a 1942 study of the Michigan appropriations process over the previous two decades, John Perkins noted that "because the governor is not the chief administrator, certain agencies have lobbied for their original requests against the sum recommended for them in the budget [of the governor]."<sup>142</sup> Like the administrative leaders, governors themselves had an interest in greater tax revenue, largely because of the services and patronage it allowed a governor to dispense. To a degree greater than that faced by administrators, however, the governor had to balance such gains against

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<sup>141</sup> The Michigan Municipal League promoted the interests and studied the problems of municipal governments. A common theme in its publications is expressed in the following recommendation: "The state must share some of its more lucrative sources of revenue with its local units" (W. Anderson, *Michigan Municipal Review*, January 1932, p. 9). For an example from the Michigan Education Association, see *Michigan Education Journal* 8 (April 1931), 438.

<sup>142</sup> Perkins 1943, p. 1-2 and 178. Governor Brucker faced such administrative opposition in his effort to enact a program for greater economy in government; see Ortquist 1982, p. 104-8.



potential political opposition from taxpayers. This balancing was captured subtly in a letter from a leading industrialist, Roy Chapin of the Hudson Motor Company, to Governor Brucker regarding the sales and income tax proposals:

May I suggest to you that taxes paid by corporations and citizens' estates are quite high and that rather than increase the burden through new forms of taxation a herculean effort be started to chop state appropriations and expenses. ... While this policy may throw some people out of [government] employment, the resultant stabilization of our economic situation in Michigan should soon result in increased employment.<sup>143</sup>

Understanding such countervailing pressures helps account for what can seem like Governor Brucker's detached stance on taxation issues.<sup>144</sup>

These were not the only political forces that Brucker and other politicians had to consider during the battles over the retail sales and income taxes. More important than the public sector's push for greater and more stable revenues, and more important than property owners' demands for real estate tax relief, was the political power of leading business interests. Clyde Fenner, chief lobbyist for the sales tax, recognized this fact when he described his opponents as "Board of Commerce and so-called 'big business.'"<sup>145</sup> Shortly before the income and sales tax measures came to a vote in the House, the *Michigan Manufacturer and Financial Record* described the political conflict:

Michigan manufacturers and merchants are mobilizing their forces to bring about a concerted attack upon three taxation measures. ... Foremost among these bills is the retail sales tax proposal. ... The measure is vigorously opposed by the larger merchants of the state, manufacturers, and medium-sized businesses. It has the backing of a

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<sup>143</sup> Chapin to Brucker, April 15, 1931, Chapin Collection, Box 21.

<sup>144</sup> *Detroit News*, May 14, 1931 (p. 4). Ortquist interprets Brucker's detachment as simply a lack of leadership, which may contain an element of truth; however, I do not think Ortquist gives adequate weight to the diverging forces detailed in this chapter. See Ortquist 1982, p. 122-4.

<sup>145</sup> Clyde V. Fenner of the Home Defense League to Brucker, May 9, 1931, Brucker Collection, Box 1.

small group of retail merchants, who hope by this method to penalize the chain stores.

John Lovett of the Michigan Manufacturers Association, Oscar Webber and Charles Clark of the J. L. Hudson Company, and Charles Boyd of the Detroit Retail Merchants Association led the opposition effort, mobilizing at least two lobbying delegations to the state capital.<sup>146</sup>

The leading opponents of the income and sales taxes made opportunistic use of contradictory arguments. Both taxes, for example, were predicted to drive business out of the state because they would increase the costs of operating in Michigan. At the same time, however, opponents pointed to the unfairness of a retail sales tax that would "fall largely on people who cannot afford to pay it."<sup>147</sup> The first claim assumed that business would bear the brunt of the tax, while the second assumed that consumers would. Opponents exploited the ability-to-pay rhetoric on a different front as well. A tax based on gross sales would be unfair, they said, because it would fail to discriminate between more and less successful operations; in other words, it would fail to consider ability to pay. Under a gross sales tax, for example, a high-volume business just managing to keep afloat would pay a greater tax than a lower-volume operation earning a high rate of return. Michigan's progressive income tax supporters certainly could have wondered at the way that such business groups had simultaneously denounced their tax and while expropriating the underlying ideal.<sup>148</sup>

Arguments by business leaders about the incidence of sales taxation — especially given their advocacy of sales taxation during the 1920s — represented not a new-found commitment to fairness but a political warning to government leaders.

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<sup>146</sup> *Michigan Manufacturer and Financial Record*, April 18, 1931; also *Detroit News*, March 26 (p. 19) and April 9 (p. 1), 1931.

<sup>147</sup> *Michigan Manufacturer and Financial Record*, April 18, 1931 (p. 10).

<sup>148</sup> *Detroit News*, March 26, 1931 (p. 19).

They [the common people who will pay the sales tax] are a rather dangerous crowd to monkey with, politically. They may live in the cities as well as the country, but those in the city, at whom this tax is aimed, are quite as likely to get on their hind legs and roar at the men, whoever they may be, who try to apply such a tax.

The message in this editorial from the *Michigan Manufacturer and Financial Record* was not that regressive taxes were bad in principle; rather, it was that business leaders would exploit regressivity to drum up popular opposition to any politician who supported the sales tax.<sup>149</sup>

The common taxpayer's staunch resistance to increased taxation circulated during the early years of the depression as an article of faith. As one politician said, "the people are not in the mood now to adopt even a dog tax."<sup>150</sup> Although opposition to taxation was touted as the unanimous public opinion, one can imagine a less decisive popular attitude, an ambivalence between the burdens of new taxes (with unknown incidence, given the wide range of possible revenue schemes) and the benefits of desired government services, notably for schools and unemployment relief.

Suggestive evidence for this ambivalence is found in the *Detroit Labor News*, an organ of the Detroit Federation of Labor. Unlike other publications in Michigan during the early 1930s, it did not bemoan the real estate tax burden or harp on the theme of economy in government. One can find articles on high interest costs as a barrier to homeownership, on property tax dodgers, and even on the old idea of a single tax on land — but not the sad tales of property owners being taxed into bankruptcy that one reads consistently in the *Detroit News*, the *Michigan Manufacturer and Financial Record*, or the Board of Commerce's *Detroiter*. The *Labor News* did not simply ignore the "tax problem"; it criticized the way the issue had been framed:

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<sup>149</sup> *Michigan Manufacturer and Financial Record*, April 18, 1931 (p. 10).

<sup>150</sup> Representative James McBride in *Detroit News*, April 10, 1931 (p. 12).

People, who may be caught by such propaganda [for economy in government and property tax reduction], should not overlook the fact that no small part of the increased cost of government comes from the necessity of protecting the masses of the people from the greed of business groups, which are loudest in the tax reduction demand.<sup>151</sup>

Nor was this assessment simply an exaggeration of the liberal left. One of the most respected authorities on public finance, Robert M. Haig, made comments to similar effect:

Relief to real estate under any plan which has come to my attention means relief to the real estate of all, to that of the large as well as the small owner. Indeed, although it is obviously good politics to stress the sufferings of the small man, much of the complaint, perhaps the bulk of it, regarding present conditions appears to come from large owners of property who in this period of depression find their expectations greatly disturbed by the severe contraction in the demand for rentable space.<sup>152</sup>

One cannot dispute a popular antagonism toward taxes — especially property taxes, given the extent of homeownership, for example, among Detroit's working class.<sup>153</sup> Nonetheless, the foregoing quotations provide additional context for understand the campaigns for real estate tax relief and economy in government. These movements represented not merely popular opposition to taxes. "The people" might have had mixed feelings about increased government spending. Rather, the movements represented the demands of powerful economic groups to reduce their costs of doing business.

The central point about the 1931 tax battles, however, was that powerful political and economic interests did not create or discover a position around which to build a

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<sup>151</sup> *Detroit Labor News* May 13, 1932 (p. 4).

<sup>152</sup> Haig 1932b, p. 34.

<sup>153</sup> Zunz 1982, p. 152-58, 170-75. Zunz estimates that roughly a third of working-class immigrants in Detroit owned their homes, usually ones they built themselves. His story goes only to 1920, but one imagines that this percentage was not drastically different in the early 1930s.

successful coalition.<sup>154</sup> The depression had convinced the public sector — and the private groups dependent on it — that the general property tax was unreliable. Meanwhile, rural interests (always over-represented in state government because of the rules on legislative apportionment) and urban real estate owners fervently wanted to reduce Michigan's general property tax levy. This goal remained a potent political force until the very end of the legislative session, near which Governor Brucker stated that "if no form of special taxation is provided during the present session of the Legislature, it is likely that there will be a special session for the consideration of nothing but the tax problem."<sup>155</sup>

Leading manufacturers, bankers, wholesalers, and retailers — property owners themselves — were certainly sympathetic to the call for property tax reduction. They were not convinced in 1931, however, that government would use new taxes simply to reduce levies against real estate. The letter quoted above from Hudson Motor Company President Roy Chapin urging Governor Brucker to oppose new taxes and simply "to chop state appropriations and expenses" illustrates a feeling commonly expressed by leading business people. Brucker's reply agreed with Chapin that economy was the paramount task. He politely added, however, that real property taxes would still be too high even after every possible economy measure had been implemented. This response shows that the governor was balancing these separate, though by no means opposite, political forces — one for real estate tax relief, the other for economy in government. When the legislature failed to find a replacement for the state's share of the property tax, Brucker called his threatened special session and recommended that a progressive income tax be submitted to the voters. But he did not lobby vigorously for the plan and the legislature supported neither it nor another effort by Fenner and the Home Defense

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<sup>154</sup> And just as they would fail to do with the 1932 federal sales tax proposal. A remark from the vice president of the American Automobile Association on the 1932 sales tax is revealing: "I have watched and been mixed up in legislation in Washington for many years and I never saw a worse political situation than we have at the present moment. Furthermore, I never saw a poorer front put up by business interests as a whole. Every type of business is fighting for itself." Memo [signature illegible] to Thos. P Henry of Detroit, May 11, 1932, Chapin Collection, Box 22.

<sup>155</sup> *Detroit News*, April 22, 1931 (p. 11).

League to tax large retailers. In the end, Chapin and like-minded business people got what they wanted: no new taxes and a reduced state budget, which cut the state's portion of the property levy from \$29 million to \$23.5 million.<sup>156</sup>

### **The 1933 sales tax proposal: public sector and property interests unite**

As the 1933 legislative session neared, the fact on every state and local official's mind was the recent passage of a constitutional amendment limiting the general property tax rate to 15 mills. It is difficult to find major political figures or organizations — except for the Michigan Real Estate Association and farm groups like the Grange — that supported the proposal on the November ballot.<sup>157</sup> Most critics agreed on two points: first, because the measure was poorly drafted, its exact effect would be uncertain; and second, the underlying tactic — fiscal chaos to force the legislature's hand — was considered unlikely to result in wise tax reform. As Comstock, a long-time advocate of real estate tax relief, said before the election, "I am for comprehensive revision of the whole tax system, but this is not the way to go about it. ... [This issue needs] the attention of an earnest, intelligent and working commission."<sup>158</sup>

Comstock's statement was both absurd and prophetic: the state had tried the commission approach unsuccessfully in 1930, and the governor would employ such a group to devise his own tax proposal. One member of this expert group would be Thomas H. Reed, a leader in the national pay-your-taxes campaign. His comments at the 1932 annual meeting of the Michigan Municipal League on the 15-mill amendment are

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<sup>156</sup> Ortquist 1982, p. 118-9; Caverly 1933, p. 3. To keep this reduction in perspective, note that the state represented only about 11 percent of Michigan's total property tax levy during the early 1930s; see Ford and Orkin 1936, p. 6; and Ford and Waxman 1942, p. 75.

<sup>157</sup> For supporters see Ortquist 1982, p. 204-5; and *Detroit News*, October 11, 1932 (p. 10). For opponents see: Michigan Municipal League 1932; Reed 1932; *Detroit News*, October 11 (p. 14) and 30 (p. 1), 1932; *Michigan Manufacturer and Financial Record*, October 29 (p. 9) and November 19 (p. 8), 1932; and the October issues of the *Detroiter*.

<sup>158</sup> *Detroit News*, October 11, 1932 (p. 14).

revealing not so much because they express the league's opinion, which was obvious, but because they set the stage for the upcoming legislative session:

It is hysterical, it is unreasonable, it is silly to start out on a program of tax reform in Michigan by destroying your present sources of revenue *before you put anything else in place*. ... You say income tax in the state of Michigan and the Michigan Manufacturers Association froths at the mouth; you say sales tax and certain of the business men of the state have something that very closely resembles epileptic seizure; you say property tax and the farmer lies on his back and kicks his feet in the air and yells for help. None of them wants to be taxed on the thing that will make them pay, and the great difficulty with the whole situation is that you can't bring them together.<sup>159</sup>

That had been the problem with attempts to enact federal sales taxes since World War I. It had also been the stumbling block, for both income and sales taxation, during Michigan's 1931 legislative session. The trick for any future tax proposals would be to find a solution to this basic dilemma.

As Governor-elect Comstock prepared to take office, the central tax themes in Michigan were the same as when Governor Brucker had been elected two years earlier. A few things were different, however. The most obvious was Michigan's political shift from nearly complete domination by Republicans to small Democratic majorities in both houses and a Democratic candidate in every major elective position except one.<sup>160</sup> While this party realignment represents dramatic change in its own right, the impact it had on taxation is not clear. One would have difficulty imposing political coherence on the faction-ridden Republican party in Michigan, divided as it was between rural and urban, progressive and conservative. Furthermore, as will be seen, the tax bills passed by the Democratic legislature in 1933 do not immediately suggest a fundamental ideological difference between it and prior Republican legislatures — at least on matters of taxation. Once given their chance in state government, the Democratic Party proved

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<sup>159</sup> Reed 1932, p. 92 (emphasis in original).

<sup>160</sup> Ortquist 1982, p. 13 and 207; White 1958, p. 22-3; Pollock 1942.

itself just as influenced by strong economic and political interests as Republicans had been.

More important for the politics of taxation than party realignment was the worsening economic depression. Property tax delinquency rates were nearing 40 percent in the state. Moreover, the incoming governor had been a prominent advocate of real estate tax relief, even more than Brucker had been.<sup>161</sup> In fact, Comstock himself was feeling the property owner's distress and was unable to meet all of his obligations, including tax payments: "I have a lot of real estate, particularly in down-town Detroit. The income from it is very uncertain at this time. This has put me in a very tight position in regard to cash."<sup>162</sup> The worsening economic crisis had caused Comstock to change his views on how to achieve real estate tax relief. In response to a newspaper questionnaire during the 1930 campaign, Comstock had written: "No new taxes of any kind until we have readjusted the tax burden as between real estate and personal property."<sup>163</sup> In his 1933 message to the legislature, however, Comstock proposed not the old strategy that dated back to the 1911 tax commission — shifting some of the general property tax burden to non-realty — but instead a different tax base altogether, chosen to yield enough revenue to eliminate the state government's reliance on the property tax.<sup>164</sup>

The growing strength of the real estate tax relief movement was not the only changed aspect of the Michigan political scene. Although informed observers did not expect the ambiguously-worded 15-mill limitation to cut the property tax as drastically as

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<sup>161</sup> On delinquency, see Ford 1936, p. 11. On the comparison between Brucker and Comstock, see Ortquist 1982, p. 77-8. For Comstock's long-held views on tax relief, see *Detroit News*, October 25 (p. 1) and 31 (p. 1), 1930; *Michigan Manufacturer and Financial Record*, December 17 (p. 8) and 30 (p. 8), 1932; Comstock to Michigan Farmers Protective League, October, 8, 1930, Comstock Collection, Box 10.

<sup>162</sup> Correspondence from Comstock, in the Comstock Collection: to D. F. Noble, September 17, 1930, Box 9; to Henry A. Haigh, July 13, 1932, Box 11; to Robert Herdon Company, July 13, 1932, Box 11; and to F. W. Walker, July 13, 1932, Box 11. Also see *Detroit News*, February 22, 1933 (p. 1).

<sup>163</sup> *Detroit News*, October 25 (p. 1) and 31 (p. 1), 1930; and Comstock to *Detroit Evening News*, October 28 and 29, 1930, Comstock Collection, Box 10.

<sup>164</sup> Text of the message in *Detroit News*, January 5, 1933 (p. 1). Just as the earlier quotation from Robert Haig would predict, Comstock's speech emphasized the difficulties of homeowners, not property holders like himself.



proponents had hoped, it was clear that this constitutional assault on the public sector's most important revenue source would lead to fiscal crisis if significant changes were not made. The three most important claimants on the state's budget — highway interests, educators, and municipalities — elevated their lobbying intensity after the November election. The first group had the easiest task, simply to preserve the historic earmarking of gasoline and vehicle taxes for road construction. The other two groups, however, began to advocate more vigorously for alternative revenues that would allow the state to abandon its claims against property and to increase aid to local governments.<sup>165</sup>

The combined effect of such economic and fiscal developments was that the outcome advocated successfully by business interests in 1931 — economy in government without new forms of taxation — was not likely to be repeated. Groups like the Detroit Board of Commerce and the Michigan Manufacturers Association had not abandoned their old position; rather, the political forces pushing in slightly different directions had increased in intensity.<sup>166</sup> One telling example of the change that had occurred was the admission by the *Detroit News*, a long-time advocate of economy in government, that "thoughtful persons are beginning to raise warnings against the process [economizing] being carried too far."<sup>167</sup>

If strong forces were converging to change Michigan's tax system, the specific outcome was hardly obvious in the months before the legislature began its work. What new tax would be chosen to lower real estate levies and to provide needed government services? An obvious possibility, which already had a track record in several states, was the income tax. However, strong opposition from conservatives and business interests

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<sup>165</sup> This can be followed in the *Michigan Education Journal* and the *Michigan Municipal Review* during the last 3 months of 1932. For the Detroit City Council's informal advocacy of a state sales tax with all proceeds to be reverted to cities, see *Detroit News*, December 19, 1932 (p. 1).

<sup>166</sup> *Detroit News*, January 9 (p. 3) and February 20 (p. 6), 1933.

<sup>167</sup> *Detroit News*, February 27, 1933 (p. 10).

threatened to defeat any such proposal in 1933, just as it had in 1931 and during the special session in 1932.<sup>168</sup>

That fact was no doubt considered by the advisory committee that drafted the new governor's tax proposal. The origins of this group are not entirely clear, but the sketchy information is nonetheless telling. As early as October 1932, the *Detroit News* carried a story on a group of University of Michigan faculty members (Harcourt Caverly, Thomas H. Reed, and George E. Carrothers) who were devising a new "model tax system." According to the director of the Detroit Bureau of Governmental Research, Lent D. Upson, the University committee was created at the request of a state official whom he would not name. Other information suggests that law professor Edwin Blythe Stason also participated in the committee's work. Stason, meanwhile, was working with a separate group designed to "give attention to the support of the public school system." The initial tax committee, therefore, represented the combination of the two key public sector groups mentioned above, cities and education: Caverly and Reed were active in Michigan Municipal League affairs and the national pay-your-taxes campaign; Carrothers was an education professor; and Stason co-authored an important bulletin for the Michigan Education Association on public finance.<sup>169</sup>

Exactly when Governor-elect Comstock retained this group as his own advisory committee is unclear. In any event, before January at least two other individuals were working on the administration's tax program: Arthur Lacy, chairman of the Property Owners Division of the National Association of Real Estate Boards and perhaps Michigan's most famous advocate of property tax relief; and Detroit attorney Raymond

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<sup>168</sup> *Michigan Manufacturer and Financial Record*, March and April, 1932, which devotes substantial space to the issue.

<sup>169</sup> *Detroit News*, October 11, 1932 (p. 3); University of Michigan President's Office to W. D. Henderson, J. B. Edmonson, and Edwin Blythe Stason, February 3, 1933, Stason Collection, Box 38; and Caverly 1933, p. ii. The other committee with which Stason worked produced a bulletin for the Michigan Education Association calling for property tax relief, increased funding for public education, and the adoption of more stable forms of government revenue — such as a 3 percent retail sales tax. See Michigan Education Association 1933.

Berry, a dissenting member of the 1930 tax commission (who voted against the income tax recommendation) and someone who would play a critical role in the subsequent political battles over the sales tax.<sup>170</sup> One of Berry's comments, made much later in the story, is especially revealing of the committee's thinking:

By reason of our constitution ... we believe it is impossible to enact a net income tax unless the constitution is amended. ... The present bill goes as far as possible in reaching the incomes of those who have not been contributing and is designed to spread the tax over the entire population rather than to place the entire burden upon a comparative few.<sup>171</sup>

Although the sales tax was framed as the only practical solution to the emergency (since an income tax was claimed to require a constitutional amendment), the simpler motivation was also present: to spread the tax burden widely.<sup>172</sup>

The proposal introduced by Comstock and his advisory committee in late January was a combination retail sales and gross income tax: 3 percent on retail sales; 3 percent on the proceeds of professional service businesses; 3 percent on the gross incomes of railroads, carriers, pipeline operators, and utilities; 3 percent on theaters and other amusements; 0.3 percent on manufacturers' sales; and 0.2 percent on the gross sales of extractive industries — in other words, a mixture of old and modern approaches to general sales taxation. The administration's plan was introduced by Representative Tracy Southworth in early February. Although Comstock admitted that the legislature might have to make

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<sup>170</sup> See biographical information on Lacy in Box 1 of the Lacy Collection. Also, *Detroit News*, January 8 (p. 1) and 15 (p. 1), 1933; and *Michigan Manufacturer and Financial Record*, February 4, 1933 (p. 4).

<sup>171</sup> Berry and Caverly to Senator Leon D. Case, June 12, 1933, Stason Collection, Box 39.

<sup>172</sup> How enthusiastic the various committee members were about sales taxation is unknown. Berry, staunch opponent of the income tax in 1930 and hired-man for manufacturing interests during the political maneuverings over the sales tax in 1933, probably embraced the concept. Caverly, on the other hand, was an economist aware of the regressivity of sales taxation and might have had mixed feelings.

changes, he was adamant that at least \$35 million, and probably closer to \$50 million, was needed to relieve the state's fiscal woes.<sup>173</sup>

In the membership, statements, and ultimate proposal of the Governor's tax committee, one sees the strong influence of the political strands that have been highlighted several times already. The first was real estate tax relief, for which two committee members had a long political track records (Arthur Lacy and Comstock himself). While it might seem as though real estate tax relief had already achieved its most important victory by passing the 15-mill limitation, the task of finding a substitute tax remained a substantial hurdle; without success on this second task, any number of outcomes not to the movement's likely were possible. The second political strand in the administration's tax proposal was the interest of the public sector in greater and more stable revenues. The municipal and education influences on the committee were strong. Moreover, Comstock himself now had his fortunes tied to the health of the public sector's budget — a fact borne out by the Governor's comment that, while willing to entertain suggestions to modify the bill, he would not approve anything that failed to generate the minimum amount of revenue. The third strand was the goal not merely to find any sufficient replacement tax, but one that would substantially broaden taxpaying status.

### **Business responds: a "straight retail sales tax"**

The administration's proposal came under attack immediately. Many of the loudest criticisms were directed at the taxes on manufacturers, professionals, and extractive industries. As early as January, Raymond Berry, a member of the Governor's own advisory committee, had suggested that the 0.3 percent tax on manufacturers' sales be cut from the plan. The *Michigan Manufacturer and Financial Record* wrote that "the measure is, to the mind of the average tax economist, as fine an assemblage of

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<sup>173</sup> *Detroit News*, February 2 (p. 1) and March 12 (p. 5), 1933; *Michigan Manufacturer and Financial Record*, February 2, 1933 (p. 3); and the legislative history can be followed for HB 184 in *Journal of the House* and *Journal of the Senate*.

economic damned nonsense — the reader will pardon the semi-profanity — that has been produced in this state in many a day."<sup>174</sup> Immediately after the bill was introduced in the House, representatives of several large businesses obtained a private meeting with Governor Comstock and Raymond Berry at the Detroit Club in order to voice their objections.<sup>175</sup>

Meanwhile, retailers were mobilizing their political forces. Even though many tax experts and business leaders had long insisted that sales taxes could be easily shifted to consumers, retailers were skeptical. Would they, as "consumers" relative to manufacturers, pay the 0.3 percent manufacturers' tax? Would they be able to shift all of the 3-percent retail tax to their customers? Would merchants in some lines of business be hurt more than others by the plan? Questions like these threatened to divide rather than unite the business community and to doom the sales tax proposal — just as they had done during efforts to pass federal sales taxes in 1921 and 1932, and just as they did in several other states during the 1930s.

This potential stumbling block, however, was recognized early in Michigan, and concerted efforts were made to allay retailers' fears. For example, several extended articles were featured prominently in the *Detroit News* as the sales tax was being drafted and debated. The articles explored sales tax plans in other states and sampled expert opinion on the subject. The central dilemma posed by the articles was how to make sales taxation fair, and the heavy-handed solution offered was to draft the tax to ensure that it would be shifted: "to assure fairness among businesses ... the tax should be passed on to the consumers as a requirement under the law."<sup>176</sup> At least in the

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<sup>174</sup> For Berry see *Detroit News*, January 8 (p. 1) and 15 (p. 1), 1933. *Michigan Manufacturer and Financial Record* quotation from February 11, 1933 (p. 3, 4, and 8). Also see February 2 (p. 4), February 18 (p. 5), April 1 (p. 8), and May 20 (p. 8), 1933.

<sup>175</sup> Among those attending were Edsel Ford, Oscar Webber (J. L. Hudson), Ralph Stone (Detroit Trust Co.), B. E. Hutchinson (Chrysler), Alvan Macauley (Packard Motor), James McEnvoy (General Motors), and Charles B. Van Dusen (S. S. Kresge Co.); *Detroit News*, February 4 (p. 1) and 5 (p. 1 and 10), 1933.

<sup>176</sup> *Detroit News*, December 13, 1932 (p. 1). Several series on sales taxation, most written by Blair Moody, can be found in *Detroit News*, December, January, and early February.

dominant lines of public discussion in Michigan, concerns about the regressivity of sales taxation were being turned on their head in order to ensure fairness *among businesses*: the fairness of sales taxation would depend on whether it affected all businesses equally, and the recommended solution was to make sure that businesses did not pay any tax — to make sure that the burden was borne by consumers.

Although Comstock's bill passed the House, the victory was hollow. As in 1931, major changes were expected in the Senate Taxation Committee, which appointed a subcommittee to draft a substitute bill.<sup>177</sup> The papers of one member of the subcommittee, William Palmer, indicate that business interests waged a concerted lobbying effort to obtain what was commonly called "a straight retail sales tax." This meant two things. For manufacturers, professionals, extractive industries, and utility companies, it meant no direct taxes on their businesses.<sup>178</sup> For merchants, the meaning was best expressed by a form-letter campaign conducted by the Michigan Retail Dry Goods Association. This campaign advocated three points: first, the law should mandate that retailers pass the tax on to consumers; second, it should be illegal for sellers to advertise that they were absorbing the tax on behalf of their customers; and third, all exemptions from the tax should be eliminated (except on goods already taxed, notably gasoline). In this campaign, many Michigan retailers were departing from the path charted by their counterparts in some other states. Rather than opposing the sales tax outright, they appear to have been convinced by the assurances that retail sales taxation, if properly drafted, would not hurt their businesses or treat them unfairly.<sup>179</sup>

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<sup>177</sup> *Detroit News*, May 18 (p.1), 19 (p. 1), and 26 (p. 8), 1933; and *Michigan Manufacturer and Financial Record*, May 13 (p. 10), 20 (p. 9), and 27 (p. 11), 1933.

<sup>178</sup> As one politician would later comment, the substitute bill produced by the subcommittee would bear "the fingerprints of the master lobbyist in every line." The lobbyist was John Lovett of the Michigan Manufacturers Association; *Detroit News*, June 14, 1933 (p. 9). This evaluation of Lovett's skill and influence as a lobbyist was common.

<sup>179</sup> Michigan Retail Dry Goods Association newsletter from manager Jason E. Hammond to members, May 19, 1933, Palmer Collection, Box 4. The Palmer Collection contains numerous letters from retailers restating these three points. All of the points were included in the subcommittee's bill, the last two in explicit language and the first in general intent (the bill *allowed* retailers to pass on the tax but did not mandate it, because of concerns about the legality of doing so).

A common thread in "straight retail sales tax" campaign — aside from the obvious desire not to pay taxes — was an effort to remove the sales tax from the arena of business competition: if no taxes were levied at higher points in the distribution chain, the sales tax would not fall more heavily on certain economic sectors (as had been feared, for example, of turnover taxes); if the law required that consumers pay the tax, all retailers would be equally affected; if no seller could advertise absorption of the tax, the tax would not provide a basis for one business to attract customers from another; and if there were no exemptions, competitive advantage would not be conferred on particular goods or sectors.

By the time the bill reached the full Senate, the only remaining debate was between two pairs of forces. On one side stood business interests who wanted the "straight retail sales tax" and fiscal conservatives who did "not want to raise a cent more than is necessary."<sup>180</sup> On the other side stood local government interests (like the Michigan Education Association and the Michigan Municipal League) and the state government (with Comstock as the primary spokesman) — none of which were concerned so much about the exact type of tax as about the minimum revenue that had to be generated. At one point during the Senate deliberation over the straight retail sales tax, Comstock charged that his plan was being destroyed by lobbyists for various business groups. He appealed to his State Administrative Board to work for his measure, which would generate more revenue than the Senate subcommittee's substitute bill: "Your departments are going to suffer unless something is done," he warned.<sup>181</sup>

The public sector interests had already achieved the only victory they would obtain, however — namely, in convincing even conservative business leaders that some new form of taxation had to be enacted to solve the state's fiscal crisis. They were not able to

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<sup>180</sup> Senator Henry Glassner of the Taxation Committee in *Detroit News*, May 26, 1933 (p. 8).

<sup>181</sup> *Detroit News*, May 31, 1933 (p. 1). Also, *Detroit News* March 29 (p. 11), April 29 (p. 7), May 23 (p. 16), June 2 (p. 1) and 4 (p. 1).

obtain the extra funds that Comstock said were needed.<sup>182</sup> If the Governor had been able to forge a stronger Democratic coalition, his bill might have had a fighting chance. The party was hardly a functioning unit when he entered office, however, and his administration did not make it any more so.<sup>183</sup> As these and earlier comments suggest, party ideology did not prove decisive in the outcome. The 18-13 vote for the Senate substitute bill showed at little partisan division as possible: 9 Democrats and 9 Republicans in favor; 7 Democrats and 6 Republicans in opposition.<sup>184</sup>

Comstock was frustrated by the outcome, especially the lower revenue figure:

By what process of reasoning your Taxation committee deleted from this bill the manufacturers, the extractive industries and the service taxes, I am unable to understand. ... Why should the revenue of the state and welfare and school aid be endangered by the exemption of these classes?<sup>185</sup>

Although the notion that crises allow government to expand its powers and resources may find support in these events, it is also clear that business interests were also able to use the crisis situation to their advantage: left at the end of the legislative session with a choice between a \$30-million bill that did not thoroughly satisfy him and a protracted political struggle in a special session of the legislature, Comstock chose expediency because of the immediate fiscal problems facing the state. He decided to sign the bill, and it took effect on July 1.

### **The new consumer tax**

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<sup>182</sup> Although many revenue estimates were tossed about, the choice was roughly between Comstock's plan, which was expected to approach \$50 million, and the Senate substitute, which was thought to be capable of roughly \$30 million.

<sup>183</sup> For Comstock's difficulties and an interesting discussion of state patronage and party politics see White 1957. Also see Ortquist 1982, p. 245-7; and *Detroit News*, April 7 (p. 9), June 25 (p. 4), and July 4 (p. 1), 1933.

<sup>184</sup> *Journal of the Senate*, 1933, p. 1154-55; *Detroit News*, June 3, 1933 (p. 3).

<sup>185</sup> Comstock message to Senate, June 2, 1933, in *Journal of the Senate*, p. 1151.



Sales tax legislation adopted by Michigan and other states during the 1930s was unlike older forms of state sales taxation that had been conceived as more direct remedies to deficiencies of the general property tax. The legislative intent in 1933 was that the new tax be a consumer tax, not a levy on property or business activity. Indeed, how to achieve this end was the central political issue for those who promoted the "straight retail sales tax." The act explicitly authorized any business to reimburse itself by adding the tax to the sale price as a separate item. Retailer groups did not cease their coordinated activity after they had achieved explicit legislative approval to shift the tax. Under the leadership of the Retail Merchants Bureau of the Detroit Board of Commerce, many stores adopted the "bracket plan," which was like the schedules used in other states — simply a chart that sellers displayed at cash registers for the purpose of adding the tax (rounded to the nearest penny) to the sale price. Other retailers went to lengths to inform their customers of the new tax and to assure them that price increases were the result of government policy, not store markups.<sup>186</sup>

The state, meanwhile, was also distancing itself from the collection of the tax, as indicated by the following comment in a radio address of Governor Comstock:

Some of our citizens, I understand, dislike the special devices that have been introduced by particular merchants for passing the tax on to them. They should understand that the state is taxing the merchant and is not responsible for any schemes for collecting the tax from consumers which the merchant may happen to invent.

It seems that if retailers were listening, the legislation was called a consumer tax; and if consumers were listening, it was a merchant tax. In addition to stressing that the details of collection were the doings of merchants, the state also conducted a public relations campaign in the late summer and fall. In the same radio address, the Governor told listeners, "the more widely and the more evenly the tax burden is spread, the easier it

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<sup>186</sup> P. A. 167, sec. 23, *Public and Local Acts of the Legislature of the State of Michigan*; Michigan. State Board of Tax Administration 1933a; Michigan. State Board of Tax Administration 1933b; Ford and Shepard 1941, p. 10-11; and *Detroit News*, June 30 (p. 1) and July 1 (p. 1), 1933.

will be for everyone to pay his share." What had been called the businessman's utopia in the 1921 battle over a federal sales tax — spreading the tax burden as widely as possible — was being defined in 1933 as the public interest. Another important part of the state's rhetoric was the concept of ability to pay, redefined to mean proportional rather than progressive taxation. In several radio addresses and editorials, the sales tax's chief administrator assured the public that no other levy could be more just: "The principle is that you pay on what you spend. It affects equally, for the first time, the manufacturer, the farmer, and the city dweller."<sup>187</sup>

Not everyone was convinced by such arguments. Some legislators had used the ideal of progressive taxation to criticize the proposed sales tax, and the *Detroit Labor News* had similarly blasted the plan by noting that "Edsel Ford's stomach is no larger than that of a working man."<sup>188</sup> But one wonders about the missing popular outrage over a regressive tax, with no exemptions for food or other necessities, enacted during severe economic depression. Average taxpayers may have been apathetic, having more pressing worries to face, or they may have been convinced by the rhetoric hailing sales taxes as the most just of all levies. But a different sort of answer can be found by considering the choice presented by the sales tax proposal — namely, a trade-off between sales and property taxes. The degree to which homeownership reached down the class structure in the United States made this choice complicated even for households with moderate means. Moreover, because of the predominance of a home in a family's wealth, many taxpayers — notwithstanding arguments about social justice — would prefer to pay a sales tax of a given amount rather than a property tax of the same or even lesser amount, because the latter carries the threat of foreclosure with it, especially in hard times.

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<sup>187</sup> William A. Comstock and Caverly 1933, p. 369; and Mogan 1933, Article 2.

<sup>188</sup> *Journal of the House*, part 2, p. 1899-1901; and *Detroit Labor News*, February 10, 1933. The comments by politicians in the legislative journals were read for this study, but they were neither particularly revealing nor extensive. The journals are not verbatim records; they only include the brief statements of those legislators who asked that their comments be printed.

Another important factor in evaluating popular responses to sales taxation was the critical political position of retailers. Most retailers did not possess great influence. But if they opposed a tax plan, and if they could coordinate their efforts under an umbrella organization, they were in a position to mobilize widespread popular support — from their customers. Haig and Shoup's study of state sales taxation in 1933 indicated that in those states where sales taxes were attempted unsuccessfully, retailer opposition was the critical factor.<sup>189</sup> In Michigan, the political environment was such that retailers were continually reassured that every effort was being made to design an easily-shifted tax.

Several factors, then, combined to ensure that strong popular opposition to the sales tax would not materialize in Michigan. First, the desire for adequate government services, particularly unemployment relief and public education, may have outweighed concerns about regressivity. Second, the choice between property and sales taxation was not clear-cut for many households, even those with moderate incomes. And, finally, the most likely agent to mobilize popular antagonism toward sales taxation (retailers) was neutralized by the constant assurance that Michigan's would be tax paid by consumers.

### **The short-lived business tax**

The temporary irony was that for its first two years, Michigan's retail sales tax was not strictly a consumers' tax — at least not in the usual sense of the term. Businesses, having argued so strongly against any direct taxes, found themselves paying 3 percent on all of their purchases *as consumers*. The act defined a retail sale as the "last actual transaction prior to ultimate use or consumption," a definition that applied to purchases of tools, machines, fuel, oil, office supplies, and so forth.<sup>190</sup> After the sales tax was enacted, a group of manufacturers retained none other than Raymond Berry to argue

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<sup>189</sup> Haig and Shoup 1934, p. 17-20.

<sup>190</sup> Ford and Shepard 1941, p. 20; and P. A. 167, sec. 1(b), *Public and Local Acts of the Legislature of the State of Michigan*.

for a favorable administrative ruling on this matter and also for a joint resolution of the legislature declaring that the intent of the sales tax bill had been to exempt anything used in manufacturing and agricultural production.<sup>191</sup> After a series of flip-flops, the State Board of Tax Administration held to a strict interpretation of the act — upon the advice of the attorney general and perhaps because of pressure from within government to maximize revenues.<sup>192</sup>

Ultimately, an act was passed in 1935 exempting goods used in manufacturing and agricultural production from the sales tax.<sup>193</sup> Although a political story in its own right, one expects that it would paint a similar picture of political power in Michigan, particularly highlighting the strength of manufacturers and farmers. More interesting for this discussion, however, were the arguments used to advocate an exemption, because they suggest an important connection between economic structure and political power. While individual consumers necessarily made most purchases near their homes, manufacturers were not so limited, especially given an infrastructure that could transport bulk purchases at a small cost relative to the value of the goods being shipped. If indirectly forced as "consumers" to pay a retail sales tax, manufacturers might consider making their purchases from wholesalers located outside the state; and this loss of business might drive some Michigan wholesalers to relocate. Such threats were part of the political strategy used in 1933 to obtain a favorable administrative ruling.<sup>194</sup>

While it is tempting to dismiss such rhetoric, the threats were not completely lacking in substance. In an advanced industrial economy, the mobility of capital allows substantial

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<sup>191</sup> *Michigan Manufacturer and Financial Record*, July 8 (p. 9) and 22 (p. 15), 1933; *Detroit News*, June 27 (p. 8) and 28 (p. 1), 1933; and House Concurrent Resolution 98, which can be followed in *Journal of the House* and *Journal of the Senate*.

<sup>192</sup> Trade Rulings 30 and 31; see Michigan. State Board of Tax Administration 1933a; Michigan. State Board of Tax Administration 1933b. Also see *Michigan Manufacturer and Financial Record*, August 12 (p. 8) and 19 (p. 6), 1933; *Detroit* September 4 (p. 4) and 11 (p. 4), 1933; and *Detroit News*, June 29 (p. 1), July 1 (p. 1), and August 8 (p. 1), 1933.

<sup>193</sup> P. A. 77 (1935), *Public and Local Acts of the Legislature of the State of Michigan*.

<sup>194</sup> *Michigan Manufacturer and Financial Record*, August 19, 1933 (p. 6); and *Detroit News*, July 8 (p. 1) and 9 (p. 1), 1933.

economic interests to impose local political solutions because the threat of relocation causes the specific interests of business to become the general interests of the community. Considerations like this partly explain how a view achieved dominance in 1933 defining fairness in taxation as fairness among businesses, rather than as fairness among all taxpayers.<sup>195</sup>

## **Conclusion**

This chapter has covered examples from many states and has advanced several arguments, most of which were summarized in the chapter's introduction, so they need not be repeated. It might be helpful, however, to try to encapsulate the chapter's central narrative. Under the interpretation offered here, the key to understanding fiscal developments during the 1930s is not to focus on how the economic crisis led to a breakdown of the property tax system, which in turn created economic imperatives forcing states to resort to sales taxation — even though the economic and fiscal crises were very important. Nor is it to focus on the battle between the forces of progressivity and regressivity in choosing either income taxation or general sales taxation — even though such choices were also important.

To understand fiscal developments in the 1930s, we need to place them in a wider historical context. When we do this, the decade emerges as the most dramatic phase in the transition between wealth taxation and mass taxation. Aside from a handful of exceptions, state governments completely abandoned the property tax; furthermore, with states turning their fiscal attention elsewhere, the remaining local property tax lacked the centralized administrative resources required for it to be anything other than a realty tax. Wealth taxation, which had been under attack and declining for several decades, was dead. In its place were new forms of mass taxation: motor fuel taxes from the 1920s, general sales taxes from the 1930s, and, in the not too distant future, state-

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<sup>195</sup> On such matters in the late twentieth century see Bluestone and Harrison 1982.

level income taxes that tapped most of the wage-earning population with proportional or, at best, minimally progressive rate structures (along with low exemptions). When viewed in light of the old fiscal era, sales and income taxation — at least as practiced by state governments — had a lot in common with each other. The deeper contrast was between these two modern taxes and their predecessor, the general property tax.

Situating the fiscal developments of the 1930s in this long-term perspective helps to avoid the most common interpretive problem found in typical historical treatments of the decade. Sales taxation was not simply compelled by the economic crisis; rather, the crisis was a *political opportunity* to overturn the old system. The rapid spread of general sales taxes was, in some sense, a culmination of the long-running campaign to eliminate the general property tax and to broaden the taxpaying public. A leading role in the sale tax movement was played by the corporations that had successfully exchanged the threat of a vigorous general property tax for the new array of corporate and income taxes during the Progressive period.

In the crisis environment, income taxation suffered from strong political and ideological liabilities. Its advocates were committed more to realty tax relief and revenue sufficiency than to progressive principles as such. Fiscal practice had become more liberal as many interest groups made competing claims on the fisc and as the political culture began to accept a wider scope for government action; however, this liberalization had not been accompanied by a solid ideological framework supporting the ideals of progressivity. In addition, income taxation continued to operate within a cramped vision. In order to address the fiscal problems of the era, progressive income taxation would have had to expand its scope beyond a fixation on the rich; however, this type of expansion ran headlong into a powerful political group — the affluent upper-middle class, which combined all of the key political resources: numbers, economic wherewithal, and organization-building assets. Along with dominant business sectors and corporate interests, this social group had provided key support for the fiscal

reforms of the Progressive era, when the first assaults on wealth taxation had been made. Whether one looks at the fiscal reforms of the late nineteenth and early twentieth centuries, the Great Depression, or the postwar era, the favorable treatment of the affluent middle class has been a perennial theme in fiscal policy making.

With such considerations in mind, the success of sales taxation during the interwar period is not mysterious. We can return to the helpful observations from Daniel Rodgers concerning the placement of the Progressive era within the broader phenomenon of the rise of modern, weak-party, issue-focused politics. The ultimate question posed by Rodgers is, *Who wins at pluralist politics?* In most contexts, the answer is the same: the well organized — specifically, the corporate sector, the elite, and the affluent middle class. The chief political advantage of sales taxation was that it hit the masses rather than the resources of the most affluent and influential groups. In their contemporary analysis of sales tax adoptions during the early 1930s, Haig and Shoup described the well-organized proponents of general sales taxes, along with the mostly disorganized opponents. This led the authors to predict — correctly, in spite of the many sales taxes that were adopted as temporary emergency measures — that general sales taxation would prove to be an enduring fiscal reform and that the obvious alternative, income taxation, would fail to keep pace, for the same political reasons. These contemporary observers did not make the mistake that has been so common in historical treatments of the decade. They did not mischaracterize the spread of general sales taxation as a phenomenon best explained by fiscal imperatives or by the supposed economic advantages of one tax over another. Rather, they identified this line of fiscal reform as belonging to a political movement — one that achieved fruition within the context of economic crisis, but that nonetheless was fundamentally political and ideological in its core motivations.

## Appendices



## **Appendix 1.**

### **An analysis of twentieth-century state tax reliance and tax adoptions**

This chapter contains quantitative analyses of the policy indicators of most relevance to this dissertation — tax reliance and tax adoptions. The examination pays special attention to the first half of twentieth century, the period during which nearly all states shifted away from a nineteenth-century fiscal structure based on general property taxation to a modern structure based on sales and income taxation. The key findings from these analyses were summarized in the narrative chapters of the dissertation. This chapter provides additional details and places my work within the context of related analyses of state tax policy outcomes.

Much of the comparative quantitative work on state fiscal policy making has been done in the field of political science. Coinciding with a broad-gauged quantitative turn in the social sciences, the field of comparative state policy research underwent a transformation starting in the 1960s. Within political science, the research approach that emerged has been called "comparative trait analysis" or simply "comparative state politics." At a theoretical level, the research was based roughly on David Easton's systems approach to political analysis.<sup>1</sup> At a more practical level, the approach simply involved the use of now-familiar tools like linear regression to identify the economic, social, and political correlates of various policy outcomes among the states and also to weigh the relative importance of such predictor variables.

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<sup>1</sup> Robert L. Savage 1976, p. 4. See also Munns 1975.

In its initial conception, this dissertation included a prominent role for this type of comparative trait analysis. Almost none of the existing work on state tax reliance had used fiscal data before the 1960s. In addition, the existing studies had not examined tax reliance over any long time frame. Filling this research void seemed to represent a good opportunity for my study. However, I have come to the view that analysis in this vein offers fairly limited leverage on the problem of understanding state fiscal history. To say this is not to discount the importance of quantitative analysis broadly speaking. To the contrary, this study is based heavily on data collection and retains a firm commitment to evaluating political narrative within the context of quantitative findings, wherever possible. But the standard approach found in the comparative state politics literature — specifically, a regression on tax reliance using a host of socioeconomic and political predictor variables — does not turn out to shed very much light on the key historical questions — some light, to be sure, but less than I had expected. In part, the outcome is a result of limitations inherent to the approach underlying comparative trait analysis. Such limitations make the research design ill-suited to answering the hardest questions (more on this in the ensuing discussion). The disappointing outcome also stems from the analysis results themselves: the application of comparative trait analysis to the topic of tax reliance during the twentieth century yields a rather limited set of affirmative findings. For several key tax reliance variables, the overwhelming finding, as we shall see, is the *absence* of consistently compelling predictors.

A closely related body of research — also primarily in political science — has addressed the topic of tax adoptions. Here, too, I have tried to extend this line of research historically. The outcome is generally similar in finding fairly weak relationships between typical predictor variables and state decisions to adopt taxes. Furthermore, in some respects, my analysis is more critical of the existing literature on tax adoptions than of the literature on tax reliance. Nonetheless, there is one respect in which a point of emphasis taken from the current literature — in particular, the importance of unified

state government in increasing the likelihood of sales tax adoptions during the 1930s — is confirmed in the analysis here.

This chapter proceeds in a straightforward fashion, reviewing the existing literature on state tax reliance and then presenting my own results. Following that, the chapter turns to the analysis of tax adoptions, focusing most closely on general sales tax adoptions during the 1930s — arguably the period of most radical fiscal transformation during the century. My examination of tax adoptions also includes a policy diffusion analysis to explore the proposition advanced in the literature that the likelihood of tax adoption is increased by the presence of the tax in nearby states.

In combination, the findings from my quantitative analyses do not provide a tidy explanation for state fiscal outcomes; nonetheless, they do form a sensible picture that reinforces themes emphasized in the narrative chapters of this study. Such themes are outlined at the conclusion of this chapter.

## **Tax reliance**

### **Historiographic overview**

The comparative analysis of state fiscal policy underwent a shift following World War II. Before then the field had an institutional orientation, which can be seen in the state fiscal studies emerging from the disciplines of political science and economics. Studies in this vein typically focused on a single institution and compared its structure, legal status, and operation across numerous states. In some cases, "institution" could be understood more broadly to include a policy framework of some kind.

In their research design, such works were comparative case studies. Information on the institution or policy was collected from multiple states, and the analysis consisted of

narrative summaries, descriptive statistics, and various efforts to classify, periodize, and typologize the topic at hand. Fiscal institutions and instruments fit naturally within this research agenda. As a result, studies in this vein provide a great deal of the raw material for historical investigations of state tax policy. Examples include Harley Lutz's work on the development of state tax commissions, Mabel Newcomer's investigation of the separation of state and local revenues, the research organized by Robert Haig and Carl Shoup on the adoption of general sales taxes during the 1930s, the examination of state income taxes by Roy Blakey and Violet Johnson, and various publications on state fiscal policy making by the National Industrial Conference Board.<sup>2</sup> In addition, the institutional research agenda fit easily within the kinds of reports required of blue ribbon commissions appointed by state legislatures and governors. As a result, it was fairly common for such academics to work as staff members on the commissions charged with formulating new tax policy during the first half of the twentieth century.

After World War II and gaining momentum in the 1960s, the comparative analysis of state policy was transformed as more advanced quantitative techniques were applied to the research area. Rather than arriving at an understanding of a topic through comparative case studies, the new approach used tools such as correlation, partial correlation, and linear regression to gauge the statistical association between a policy outcome and a range of social, economic, and political predictor variables. Although the statistical techniques had become more advanced, the data gathering suffered, as most analysts simply relied on whatever aggregate statistical data was already available in Census publications and various secondary sources. A key figure in this new approach was Thomas R. Dye, who was influential not only because of his skill in presenting statistical findings in a coherent and persuasive way, but also because his work was well framed as a response to assumptions underlying older political science research on comparative state policy. A working assumption of much prior work in the field was that the political system had a major impact on policy outcomes. Certainly this was never

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<sup>2</sup> Harley Leist Lutz 1918; Newcomer 1917; Haig and Shoup 1934; National Industrial Conference Board 1929; Roy G. Blakey and Johnson 1942; National Industrial Conference Board 1930b.

questioned in the institutional studies noted above. The assumption can also be found in the work of post-war political scientists such as V. O. Key. Even though Key's work moved political science toward a greater emphasis on quantitative methods, it nonetheless concerned itself mainly with understanding the functioning of the political system itself. Dye's analysis opened that underlying assumption up for questioning.<sup>3</sup>

Published in 1966, Dye's *Politics, Economics, and the Public: Policy Outcomes in the American States* had a larger target than simply discovering the correlates of state policy making. The broader goal was to compare the relative strength of two types of variables — socioeconomic and political — and to determine whether characteristics of state political systems showed any statistical relationship with policy outcomes after economic development variables had been controlled.<sup>4</sup> Dye concluded that indicators of economic development (urbanization, industrialization, per capita income, and education) were generally better predictors of policy outcomes than were political variables dealing with partisan politics, political participation, and legislative apportionment. The statistical power of the latter group tended to drop substantially once the economic development variables were controlled. While economic development variables did correlate reasonably well with some fiscal characteristics (such as per capita taxation, total tax revenue, and the degree of fiscal centralization), they showed hardly any consistent relationship with the two fiscal variables of greatest interest here — income and sales tax reliance.

Roughly similar results are found in another frequently cited study of state fiscal structure, a small section of a book by Richard Bingham, Brett Hawkins, and Ted Herbert called *The Politics of Raising State and Local Revenue*. Their dependent variable is an ordinary measure of tax reliance: the proportion of tax revenue that comes from a particular tax under examination. Using 1975 data, the study explores this measure for several types of taxation: property, personal income, corporate income, general sales,

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<sup>3</sup> Robert L. Savage 1976.

<sup>4</sup> See, for example, Dye 1966, p. 5.

and selective sales. The list of potential explanatory variables includes the usual socioeconomic indicators (income, population, urbanization, industrialization, education, and race), several political measures dealing primarily with turnout and popular voting by party, and a couple of tax-related variables that will be discussed shortly. In the simple correlations, some modest patterns emerged. Most of these relationships weakened, however, when the full regressions were run. The only clearly powerful explanatory variable was a tax innovation score. This measure was based on the year that a state adopted a tax relative to the year the tax was first adopted by any state: early adopters received high innovation scores. To put it differently, the higher the innovation score, the longer the tax had been on a state's books. Thus, the study had two primary findings, one negative and the other affirmative. The first was that the obvious socioeconomic and political variables are rather weak predictors of state tax reliance. The second was simply that older taxes tend to be relied upon more heavily. States that had adopted their general sales taxes during the 1930s, for example, tended to rely on them more heavily than states that had adopted them during the 1960s.<sup>5</sup>

The results from Dye and Bingham are broadly consistent with other research on state fiscal structures undertaken during the 1960, 1970s, and 1980s. The comparative state policy studies have tended to focus on the relationship between socioeconomic and political variables and the level of expenditure in various policy areas — welfare, highways, and education, for example — or on the overall level of taxation. Three broad findings emerged: (1) socioeconomic variables are sometimes strong predictors of public policy outputs as measured by levels of expenditures or revenues; (2) political variables generally are not strong predictors, especially in multivariate analyses that include the socioeconomic variables; and (3) the explanatory power of socioeconomic variables varies by policy area. Relatively less attention was devoted to studying the mix of taxes used by state governments — as measured, for example, by state reliance — and in this area the positive findings were among the weakest. Like Dye and Bingham, most

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<sup>5</sup> Bingham, Hawkins, and Hebert 1978, especially p. 143-56.

analysts were unable to find consistently strong predictors of state tax reliance — at least for the 1960s and beyond.<sup>6</sup>

A few more recent studies have attacked a closely related topic — namely, state tax progressivity. Both Donald Phares and Citizens for Tax Justice (CTJ) have developed measures of both state and combined state-local tax progressivity, starting as early as the 1960s. Political scientists have used these measures as dependent variables in a handful of studies. One should emphasize that such measures, despite their technical sophistication, are closely related to the simpler indicators of state fiscal structure used in this dissertation — tax reliance. For example, for the early 1970s the correlation between Phares' index of state tax progressivity and state income tax reliance is 0.76 — not high enough to call one variable the functional equivalent of the other, but strong nonetheless. By including just a few tax reliance variables (income, inheritance, and license, for example), regressions on Phares' index can account for about 70 percent of the variance in tax progressivity. In fact, a study by Gary Brooks uses a ratio between reliance on progressive versus regressive taxes as a proxy for tax progressivity, and its findings roughly parallel those that use the more rigorous measures provided by Phares and CTJ.

There are two important differences between the tax progressivity literature and the findings in the earlier tax reliance studies. First, this literature deploys a wider range of potential explanatory variables — notably variables that touch more directly on issues of distribution. Second, these studies achieved statistical models in which some socioeconomic and political variables were significant correlates of tax progressivity — in marked contrast to the explanatory weakness of the models used by Bingham and Dye. Four types of variables are suggestive:

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<sup>6</sup> Brooks 1980. Also see Penniman 1976, p. 450-51.

- Various measures of political involvement or competitiveness seem to be associated with greater tax progressivity: higher voting turnout, fewer legislative impediments to popular political participation, and the degree of partisan competitiveness in state politics (as opposed to one-party dominance). Such findings are suggestive because they reinforce the idea — most closely linked to V. O. Key in the comparative state politics literature — that more active and competitive democratic politics will tend to foster progressive public policy. An alternative formulation — one that will receive greater attention in the discussion of my own findings — is that one-party dominance might allow more regressive forms of taxation to succeed politically, whereas they would tend to fail in more competitive environments.
- Political conservatism — expressed through proxies such as a political culture classification or a South dummy variable — seems to be associated with regressivity.
- Economic and social inequality seem to be associated with regressivity. These inequality measures include variables such as an index of income inequality, the percent of families under some income threshold, or the percentage of the population that is black.
- Economic development indicators seem to be associated with progressivity: for example, manufacturing value-added per capita, average firm size, or the percentage of income from interest, dividends, and rents.<sup>7</sup>

In spite of these promising leads, however, the tax progressivity literature is like the tax reliance studies in being largely unsatisfying, for two reasons. The first is that all of these studies are brief articles framed as narrowly quantitative exercises. Rarely does the

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<sup>7</sup> Brooks 1980; Jacobs 1980; Lowery 1987; and Morgan 1994.



discussion of statistical findings go beyond a formulaic linking of results for individual independent variables (for example, partisan competitiveness) to abstract predictions derived from political models (for example, the proposition from Key noted above). Due to these constraints of space and approach, the statistical findings are not marshaled in a way that clarifies the historical processes that led to the statistical patterns being observed. On an intuitive level, the four types of variables just mentioned are suggestive, but their promise depends entirely on transcending the confines of cross-sectional quantitative analysis and placing the statistical results in a historical context. Even though the comparative state politics literature is ostensibly built upon a political systems approach like that proposed by David Easton, in practice it tends to neglect a critical component of the systems approach — the feedback loop, through which policy outcomes affect subsequent rounds of socioeconomic change and political activity (recall Figure 25). Surveying the situation in the late 1970s and early 1980s, critics like Savage and Munns were not impressed by the field of comparative state politics. They described a field in which sophisticated analytical techniques were built upon fairly weak data sources, with frequent mismatches between concept and measurement, and a field that worked with a one-way understanding of relationships, giving little more than superficial treatment of feedback, process, and, by extension, history. As Savage aptly notes, comparative trait analysis is not really the point of our endeavors: "the ultimate political question lies in the feedback phenomenon. It is at this 'point' in the political system that public assessments are made of governmental actions intended to resolve problems fed into the policy process at an earlier time."<sup>8</sup>

The second cause of dissatisfaction with the comparative state politics research is more narrowly confined to the issue of greatest focus here — tax reliance. Like the tax reliance work by Bingham, some of the statistical analyses of tax progressivity depend heavily — and uncritically — on fiscal independent variables. Conceptually, these fiscal variables are like Bingham's tax innovation score in testing the notion that incremental

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<sup>8</sup> Robert L. Savage 1976, p. 19. Also see Munns 1975.

or other processes will lead states to exploit older taxes more fully. Most commonly, an "early adopter" dummy variable is used for this purpose (for example, whether the state adopted an income tax before 1960), but in one case the analyst goes so far as to include tax reliance measures themselves as independent variables in a regression on tax progressivity. Whenever such fiscal variables are included, they tend to dominate the model's explanatory power. Independent variables of this kind can evoke a cynical response due to the model's circularity. Income tax reliance, for example, is indirectly an input in the computation of tax progressivity.

## **Analysis**

### **Tax reliance variables**

As part of this study, I extended the analysis of state tax reliance backward in time to cover the period from 1900 to 1960. This earlier period is a promising field for research not only because existing analyses focus almost entirely on the period since 1960, but also because the most radical transformations in state fiscal structure occurred before World War II.

I confined my analysis to the major tax reliance variables, which changed considerably during the first half of the century. The tax reliance variables that received the most attention in the work described here are listed in Table 27, which can be summarized roughly into three periods. In 1902 and 1913, state tax systems were still dominated by property taxation; however, a distinction was emerging between states that remained fully within the older framework of general property taxation and states that had moved toward the newer forms of special or corporate property taxes. The 1917-1932 period was one of transition, with changes occurring on multiple fronts. Property taxes remained important categories in many state budgets, but revenue sources were diversifying as state governments added income taxes, inheritance taxes, and a set of

auto-related taxes, notably special sales taxes on motor fuels. The modern period, loosely defined, can be seen in the data beginning in 1937: property taxes had ceased to be of much relevance for most state budgets; sales taxation had emerged as the dominant category; auto-related taxes remained important, but would fade in relative importance with each passing decade; and income taxation had become widespread and was poised to embark on a slow but steady course of both expansion (heavy use rather than just widespread existence) and evolution (into a mass tax rather than an elite tax).

### **Differences between my analysis and prior work**

Although the analysis presented here is generally similar to existing work in comparative state politics, it is framed differently in several respects.

The first difference concerns the use of independent variables. Superficially, the analysis here is fairly typical in that it is based on the usual roster of socioeconomic and political indicators. In fact, for practical reasons, the list of variables used in my study is more confined: consistently available social, economic, and political indicators are harder to come by the farther one goes back in time; as a result, the list of predictor variables explored here is fairly limited. However, such limitations were not driven solely by data availability. At its worst, comparative trait analysis gives the impression of a crude exercise in maximizing  $R^2$ : the analyst piles a bundle of predictor variables into a regression, examines the results, and then grabs one or more abstract explanations off the literature stack to put the findings in an academic context. In this process, a crucial structural aspect of comparative state policy research is forgotten. There are never more than 50 cases in state policy analysis. At a certain point, a judgment call has to be made regarding the appropriateness of adding yet another predictor to a model. The mathematical constraints are one thing; however, common sense is another. The power of quantitative analysis is that it can distill generalizations from a body of numerous

observations. This generalizing power fades if the number of cases and the number of predictor variables begin to operate within roughly the same order of magnitude. In the comparative state policy literature, regressions with ten or more predictor variables are not uncommon — in other words, 5 cases for each predictor. It is not entirely clear what this sort of over-determined analysis is actually doing, or what the common-sense meaning of its findings are. Thus, one of the restrictions in my own analysis was to confine regressions and related statistical procedures to no more than a few predictors.

A related point about the structure of comparative state policy analysis should be noted at the outset. Unlike many quantitative exercises in the social sciences, this field works with an entire population — all of the states. As a result, the usual guidelines for statistical significance testing, which are framed in the context of analyzing a sample of some larger population, do not apply in a strict sense. However, we still need some standard for setting a threshold between statistical relationships that are too small to be worth worrying about and relationships that are, in some sense, *significant*. The approach taken in most comparative state policy analyses — and here as well — is to rely on the usual thresholds for statistical significance. This approach can be justified by thinking of the 50 states as a sample from a hypothetical population of jurisdictions. In this light, an analysis with roughly 50 cases needs to achieve simple correlations of 0.30 or better in order to meet the usual standard of a p-value less than 0.05. If we achieve statistical associations that strong, we can be fairly confident that there is at least some relationship between two variables.<sup>9</sup> Note, however, that a simple correlation of 0.30 means that the predictor variable would account for only 9 percent of the variance in the dependent variable — in other words, not very much. When shown a scatter plot of data with a correlation of 0.30, most observers would not conclude, on an intuitive level, that there is a noteworthy relationship between the two variables. At its worst, the comparative state policy literature forgets this point. In this light, a higher standard is warranted: to be worth worrying about, a model ought to account for a non-negligible

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<sup>9</sup> Dye 1966, p. 39.

share (for example, a third) of the variation in the dependent variable. A rough guideline used in my work was to focus on those models with an  $R^2$  of at least 0.33, which corresponds to correlations on the order of 0.58 or better.

The analysis here is framed as a corrective to existing studies in another sense. Most comparative analyses of state fiscal structures are narrowly cross-sectional, examining tax reliance or some other fiscal characteristic in one year. My analysis is also cross sectional; however, it is repeated for multiple years. This difference is important. In my judgment, it is incautious to observe a statistical pattern in one year and rush to attach those findings to one theory or another. Fiscal conditions change from one year to the next. With 50 or fewer cases in the analysis, unusual conditions in just a few states can skew the performance of one predictor or another. One of my goals, then, was to judge the regression results not only against a high standard of statistical significance, but also in relation to each other. I was especially interested in finding predictor variables that performed well not simply in a single year but in surrounding years as well. The goal was to identify, if possible, predictors of tax reliance that exhibited consistency over time — not necessarily over the entire century, but at least over some meaningful period.

The analysis presented here is also self-consciously different than most comparative state policy work in that it does not engage in much of an effort to attach observed statistical relationships to abstract theory from political science or any other discipline. In light of my reading of the history of state tax choices, such abstractions are not tremendously helpful. For example, indicators of the level of economic development — per capita income, industrialization, and urbanization — are a staple of comparative research in state policy making. Such variables have been shown, for example, to be strong correlates of some fiscal characteristics, in particular the overall level of taxation. The predicted effect of these variables on tax reliance, however, is unclear. On one hand, a simple connection between economic development and modern taxation is often suggested: as an economy grows and diversifies, new forms of taxation emerge to

tap the new economic activity. Such a dynamic might be revealed, for example, by contrasting states that continued to rely heavily on the general property tax with those that were quick to adopt modern fiscal instruments. In the narrative chapters of this dissertation, however, we saw how readily this sort of abstract socioeconomic theorizing could lead to misinterpretations of the historical record. As just one example, some students of state fiscal history used this sort of reasoning to support a narrative chain in which socioeconomic modernization leads to modern revenue instruments — such as corporate property taxes and ultimately income taxes — which in turn leads to fiscal expansiveness. As we saw, however, the first few decades of the twentieth century do not support this narrative: the use of modern fiscal instruments was not clearly associated with fiscal expansion.

A similarly abstract theory is the idea that as income rise, more resources will be available for progressive policy measures to aid the less well off, a dynamic that would also be exhibited by a positive relationship between economic development and progressive tax instruments like the income tax. However, this understanding of income taxation is historically contingent. It might be a plausible working theory for income taxation circa 1970; however, its relevance for the first half of the twentieth century is suspect. Early income taxation often carried a heavy dose of symbolic politics: in practice, it was usually an elite tax attached to few taxpayers and yielding small revenue volumes. Even more important, early income taxes were not, as they are in our own time, alternatives to regressive general sales taxes; rather, they were framed explicitly as replacements for a wealth tax. In this light, would an observed statistical association between economic development and income taxation really provide evidence for a theory linking such development to the emergence of progressive policy outcomes? To put it more directly, in historical context, was early state income taxation a clear-cut "progressive" choice? As discussed in Chapter 7, the tax's political character was more complex than that.

The point of such observations is not to suggest that the proposed theories are necessarily invalid or unhelpful in all circumstances. Rather, the point is simply that abstract political theories provide limited guidance and run the risk of importing historically inapt assumptions into the problem space. As a result, they need to be deployed cautiously rather than as a first resort. The statistical results in this chapter are presented primarily as descriptive observations, to be evaluated in the context of a wider political narrative and interpretation rather than simply marshaled in support of one historically unanchored political science theory or another.

### **Independent variables**

The independent variables for the tax reliance analysis come from Census Bureau publications, from datasets obtained through the Interuniversity Consortium for Political and Social Research (ICPSR), and from various publications in the field of comparative state politics. Although a variety of independent variables were examined for potential associations with tax reliance, the most systemic work was done with the roster of independent variables documented in Table 28. Among those variables, the model that was generally the most successful from a strictly statistical point of view used three variables — one socioeconomic, one political, and one general purpose.

- A measure of urbanization: urban population as a percentage of total (urban).
- A measure of Democratic Party success: Democratic votes as a percentage of total in the most recent presidential election (dem\_pres).
- Census region: a set of region dummy variables (reg\_ne, reg\_mw, reg\_so, and reg\_we).

The statistical performance of the tax reliance regressions was not usually helped very much by including more than one of the primary socioeconomic indicators noted in Table 28 (urban, man\_emp, or inc\_pc), due to the high collinearity among these predictor variables. The urban variable, for example, tended to have correlations on the order of 0.70 or higher with measures of manufacturing employment and income per capita. Among this set of broad-gauged socioeconomic indicators, the urban variable exhibited the strongest associations with the major tax reliance variables, followed very closely by manufacturing employment.

Similarly, the regression models were not usually helped very much by adding more than one of the major political variables measuring turnout, party competitiveness, and partisan electoral outcomes (turnout\_pres, compet\_pres, and dem\_pres). These variables are also quite collinear, particularly for the period through 1942, with turnout and competitiveness being positively associated, and with Democratic voting being negatively associated with the other two variables. Relative to the socioeconomic variables, the political variables: (a) were less consistently associated with tax reliance in simple bivariate correlations; (b) tended to attain statistical significance, if ever, only after controlling for other variables; and (c) tended to exert less statistical influence within the overall model.

Even though the political variable with the most consistent performance was the measure of Democratic party success, I do not place much weight on the literal meaning of this variable, which appears to suggest that partisan differences provide a great deal of leverage for understanding the history of state tax choices. Much like the socioeconomic indicators already discussed and especially like the region variable, the dem\_pres variable should be taken as a general indicator or a proxy for something larger — in this case, for durable patterns of political activity.



Ideally, such political characteristics would have been examined using state-level variables rather than variables dealing with presidential elections; however, data availability on state-level political outcomes is spotty. For practical reasons, my tax reliance analyses spanning the entire 1902-1962 period used presidential political variables. For the critical period of the 1930s, I assembled some data to fill the state-level void in the measurement of partisan control of government. These variables, as we shall see, provide some of the most important findings in this analysis.

The other major class of predictor variable that exhibited consistently strong relationships with tax reliance was region. For these analyses I have mainly used the modern Census regional classifications. Alternative regional classifications, including the finer breakdown provided by the Census divisions, did not tend to alter the strength of the regression models appreciably (for regional classifications, see Table 8 and Appendix 5). A basic problem with region as a variable in comparative state policy analysis is its ill-defined nature. At least at first glance, is not clear what a statistical association between tax reliance and region actually means. Presumably, region captures a range of economic, social, political, and cultural features of a state. To be useful in an explanatory sense, we need to know which specific characteristics were decisive in determining the differences in tax reliance that we observe across the regions. Nonetheless, the statistical patterns are fairly decisive: even after controlling for a variety socioeconomic and political characteristics, region retained its power as a predictor variable for twentieth-century state tax reliance. How to make sense of this statistical pattern will be explored in more depth in the ensuing discussion.

### **Main results**

Even though many combinations of independent variables were examined, the main long-term findings can be summarized without doing too much injustice to the complexities by focusing on a single regression model containing three predictors:

urban, dem\_pres, and a set of region dummy variables. For some tax reliance variables, modestly stronger regressions could have been obtained using different predictors. For example, regressions on total sales tax reliance achieved slightly higher values for  $R^2$  using income per capita rather than urbanization; however, such differences were modest (increases in  $R^2$  ranging from 0.01 to 0.05).

The regression results are displayed in two formats: Table 29 reports the regression parameters in a typical fashion, with the information organized by tax reliance variable and then by year; and Table 30 provides a condensed view of the same results, organized to facilitate comparisons across time and tax instruments.

As one can quickly discern from Table 30, the most compelling statistical patterns for the major tax reliance variables are found during the first few decades of the century. The strongest regression results are those for general and special property tax reliance in 1902, when the model accounts for 63 percent and 73 percent of the variation in the tax reliance variables. These patterns weaken over time, becoming no better than modest during the 1930s, at which point property taxation had been eclipsed by other forms of taxation.

Because special property taxes were largely replacements for general property taxes, their statistical relationships with the independent variables in the regressions are mirror images of each other. For example, economic development indicators such as urban and man\_emp were *negatively* associated with general property tax reliance and *positively* associated with special property tax reliance. A similar mirroring is evident in the other variables in the regressions, dem\_pres and Census region.

Even after controlling for a variety of socioeconomic and political variables — those listed in Table 28 and others — region exhibits an association with general and special property tax reliance during the early twentieth century. The regional pattern was

strongest at the beginning of the century, with the Northeast region being different in having moved most decisively away from general property taxes and toward the new set of special or corporate property taxes. During the 1910s and 1920s, the pattern evolved somewhat, with the South becoming the most different region (lower values for general property tax reliance) and with the Midwest and West having only modestly higher reliance on general property taxes than the Northeast.

Similarly strong patterns are seen in the analysis of estate tax reliance, a category that becomes available in the data beginning in 1917. Estate, inheritance, and gift taxes were not a major component of the aggregate state government sector; nonetheless, their usage followed a pattern roughly similar to that of the new special property taxes. In effect, estates taxes were part of the new mix of taxes that states deployed as they shifted away from general property taxation.

The next major tax depicted in Table 30 — the income tax — is noteworthy for the absence of compelling statistical associations. This absence is not due solely to the narrow set of independent variables depicted in Table 30. A variety of social, economic, and political predictors were tried and no compelling associations emerged for income taxation — a pattern that was durable across the entire century.

The other dominant form of taxation during the twentieth century — sales taxation — did exhibit some strong statistical associations before World War II. In particular, the Northeast region was distinctive in avoiding sales taxation. None of the surviving Depression-era general sales tax adoptions occurred in the Northeast, and the region relied less heavily on motor fuel taxation. The combination of these factors meant that total sales tax reliance exhibits a fairly strong result in the 1937 regression shown in Table 30, with 44 percent of the variation in the dependent variable being accounted for by the model. However, the strength of this finding needs to be qualified in two ways. First, nearly all of explanatory power comes from region alone, with the other predictors

contributing almost nothing. As noted above, it is difficult to know what to make of a regional pattern in isolation from other consideration. Nonetheless, the regional pattern observed for sales taxation remains solid even in the presence of a wider set of independent variables than those covered in Table 30. The second qualification is that the statistical patterns observed in 1937 were not durable. The strength of the regressions on the sales tax reliance variables declined quickly after the 1930s. A stronger — and substantively more compelling — regression on sales tax reliance in 1937 can be found by focusing on the issue of unified partisan control of state government; however, discussion of this topic will be taken up below, in conjunction with an examination of Depression-era sales tax adoptions.

These findings, especially for the period after the 1930s, are consistent with the existing studies on tax reliance, which analyze fiscal data from the 1960s and beyond. At least among the obvious social, economic, and political variables, there are no strong correlates of state tax reliance.

## **Tax adoptions**

### **Historiographic overview**

If the analysis uncovers few strong and durable statistical correlates for tax reliance — especially for the period since World War II — one might consider the prospect of historically contingent fiscal development, through which states with similar socioeconomic or political structures nonetheless ended up possessing divergent tax systems because of differences — either systematic or idiosyncratic — that existed in the past, at the time of major tax adoptions. The idea is that once key fiscal choices are made, incremental or other processes lead states to exploit the taxes on hand rather than entertaining other major fiscal decisions. Under this line of thought, to understand differences in state tax structures today one should pay relatively less attention to

current political or economic trends and instead investigate differences among the states during critical periods when major taxes were either adopted or rejected.

Like the literature on tax reliance, the scholarly work on tax adoptions is limited in quantity to a handful of studies. With one exception, it is also limited in scope to article-length, narrowly framed exercises in which ahistorical political models are subjected to quantitative testing. A third limitation derives from the general question motivating these studies. Coming on the heels of the 1970s state and local tax revolts, this literature tends to concern itself with the broader issues of government growth and the political means by which government extracts resources from society. The choice among specific taxes — either at a single moment in time or as a historical evolution from one tax base to another — is a subject that barely sneaks in the backdoor of a research design concerned more directly with the way state governments raise revenue of any kind. To put the same point differently, this literature frames the question in terms of increase or decrease of government revenue (with an implicit orientation toward seeing the state as an actor) and underplays the question of distributive politics (the state as an arena for conflict among social, political, or bureaucratic groups).

One finds five common explanations in the comparative state policy literature on tax adoptions. Some of these explanations are oriented toward explaining why some states adopt new taxes earlier than others on a larger historical scale, and others are geared toward identifying the particular conditions that are conducive to tax adoptions.<sup>10</sup>

- *Economic development.* Explanations emphasizing economic development usually argue that states on the forefront of socioeconomic change are also the states the lead the way in adopting new fiscal instruments. When framed as a general explanation, this theory often uses per capita income as the primary causal variable, with the logic containing three components: higher income

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<sup>10</sup> Also see Frances Stokes Berry and Berry 1992 for an overview organized around these five types of explanations.

means greater fiscal capacity; higher income leads to a greater demand for luxury goods, a category in which some public services might be considered to fall; and urbanization tends not only to break down kinship or communal systems of support, with government filling the void, but also creates greater infrastructure needs to facilitate complex interdependencies among individuals and firms in an urban environment.

- *Fiscal distress.* An economic or fiscal crisis can reduce the political risks that normally stifle major tax innovation.

- *Election cycle.* In order to minimize the chances of electoral retribution, politicians will enact new taxes as far as possible from the next election — in other words, at the beginning of political terms rather than at the end.

- *Party control.* Explanations emphasizing party control of state government take on several forms. An ideology variant emphasizes a liberal-conservative dichotomy, with liberals being assumed to be more likely to expand the fiscal resources and with conservatives consistently opposing that expansion. At least during the last half of the twentieth century, political scientists have often modeled this ideological difference by grouping Republicans and Southern Democrats under the conservative category. Another variant of party control explanations emphasizes the importance of unified institutional control. The central proposition is that the party that controls the levers of government will favor new taxes because of the political and bureaucratic rewards that come with additional revenues. Under this line of thought, tax adoptions will be more likely when the same party controls all of the major avenues of political decision making — for example, the governor's office and the legislature. The institutional control theory can also be qualified by considering the competitive context. Unified party control of government at one moment may not be the only

consideration; also relevant is the historical track record. The key question here is whether the state's politics are normally competitive, with the parties regularly trading leadership and competing closely in recent elections, or one-sided, with the same party controlling government year after year. While a unified government has the power to enact a new tax, it will also bear all of the political blame. A unified government in a normally competitive environment might act differently than a unified government under conditions of more stable partisan control.

- *Policy diffusion.* Explanations focused on the issue of policy diffusion begin with the idea that state governments take a variety of steps to simplify decision processes. An easy way to do this is to emulate the policies of nearby states, which are likely to have similar economic and cultural backgrounds. A tax that exists in a nearby state may seem more fair to voters. Also, common concerns about taxes driving away business will be muted if the tax exists among the state's regional economic competitors.

One of the more ambitious and widely cited works addressing the topic of twentieth-century state tax adoptions is Susan Hansen's *The Politics of Taxation*. Hansen's examination of state tax adoptions places heavy emphasis on the issue of unified party control. Her approach to the topic is based on a fundamental proposition concerning the politics of taxation — namely, that new revenues offer significant advantages to the party or faction that collects and spends them. The difficulty for the governing party lies in overcoming opposition from the public and, perhaps even more important, from the opposing party. Such opposition will be less potent, however, if the same party controls all of the major institutions of political decision making and information dissemination. Such control allows the dominant party not only to make legislative decisions that might fail in a more competitive environment, but also to structure public perceptions of tax policy in a way that reduces the threat of effective political opposition. Given sufficient

control of the institutions of government, politicians can pursue policies that increase discretionary revenue while minimizing adverse reactions from voters.<sup>11</sup>

Hansen couples such political considerations with the observation — one noted by many students of taxation — that major changes in fiscal policy have often occurred in times of perceived crisis. The most notable example is the Great Depression, a period witnessing the largest concentration of major state tax adoptions. The logic here is similar to the ideas just noted: political leaders have structural reasons for preferring increased government revenues, but this preference is constrained by the threat of voter opposition. Such opposition can be muted if new taxes are successfully packaged as an unavoidable response to crisis. As discussed in the narrative chapters of this dissertation, however, there was considerable variation in the fiscal responses of states to the Great Depression. One possibility is that this variation stemmed from differences in the severity of the economic crisis from one state to another. Without dismissing the straightforward economic logic leading from fiscal crisis to new tax adoptions, Hansen argues that political variables are more important in determining which states responded to the crisis by adopting major new tax instruments. In addition, her discussion suggests the idea that crisis, unified party control, and tax adoption could be interconnected. Specifically, a major crisis could lead to political realignment that produces the conditions of unified party control that in turn increased the likelihood of major fiscal change.<sup>12</sup>

Hansen's work has much to recommend, especially her interest in moving beyond the simplistic accounts of Depression-era tax adoptions that are content to explain them simply as pragmatic responses to fiscal emergencies. Unfortunately, her statistical analysis illustrating the importance of unified party control is confusing and not as rigorous as it could be. The main quantitative evidence provided in Hansen's chapter on state tax adoptions consists of a set of percentage comparisons. According to Hansen's

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<sup>11</sup> Hansen 1983, Chapters 1-2.

<sup>12</sup> See Hansen 1983, p. 156 and Chapter 5 generally.



analysis of the 1914-1976 period, the percentage of tax adoptions that occurred under conditions of unified party control were as follows: 83 percent for general sales taxes; 76 percent for personal income taxes, and 73 percent for corporate income taxes. Viewed out of context, these percentages seem compelling; however, roughly 70 percent of state governments during the period were unified. In effect, 70 percent is our baseline (or null hypothesis) for the purpose of judging whether the percentages for the three types of taxes are noteworthy.<sup>13</sup> Taking the overall proportion of unified state government as a given, a purely random distribution of tax adoptions among the states would be expected to occur under conditions of unified party control 70 percent of the time. In this light, only the statistic for the general sales tax seems distinctive. More formally, one can use the binomial probability formula to compute p-values for the three percentages. The sales tax outcome — with 83 percent of tax adoptions occurring under conditions of unified government — is significantly different from what one would expect from chance alone ( $p = 0.05$ ). For the personal and corporate income taxes, however, the p-values are not compelling: 0.25 and 0.40.

An additional issue that complicates Hansen's statistical observations is the distinctiveness of the 1930s with respect to the issue of unified government. For example, based on my own calculations, during the critical 1932-1938 period when most general sales taxes were adopted, 84 percent of state governments were unified — in other words, notably higher than the overall rate of 70 percent reported by Hansen for the entire 1914-1976 period. If a high proportion (roughly half) of sales tax adoption occurred during a period characterized by an unusually high rate of unified government,

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<sup>13</sup> Strictly speaking, the cited statistic (70 percent) is not precisely what we want as our point of comparison. Hansen's Table 5.2 reports the probability of unified government occurring during the 1914-1976 period *among the states that adopted a tax in question*. Ideally, we would have the percentage of *all* state governments that were unified during the 1914-1976 period. Nonetheless, every state adopted at least one of the taxes covered in Table 5.2 — general sales, personal income, or corporate income. Thus, every state is represented in at least one of those groups of adopting states. Since the percentages reported for the three taxes cluster very tightly around 70 percent (69, 70, and 71 percent), we can confidently use that number as the point of comparison for the *p*-value computations reported in the discussion here.

it is difficult to know whether the observed association between unified government and sales tax adoption indicates causation or concurrence.

Hansen also provides a classification of 1930s tax adoptions organized around unified party control and electoral competitiveness. She uses the information to suggest that *competitive states with at least four years of unified Democratic control* were more likely to adopt the major new tax of the era — the general sales tax. Whereas 79 percent of those states adopted the tax, only 21 percent of the states classified as having a competitive political environment with divided government control adopted a general sales tax. The one-party states stood in the middle, with 50 percent of them adopting the tax (and with no difference between the solid Democratic states and the solid Republican states).<sup>14</sup> These statistics are suggestive in hinting at the importance not only of unified government control (the competitive states with divided control were least likely to adopt), but also of major political realignment: specifically, the normally competitive states that experienced a consolidated phase of unified control — a realignment of sorts — were most likely to adopt. However, the findings suffer from a technical problem (p-values are not reported) and a substantive problem — namely, that of chronology. For the groups of states with the highest adoption rate — competitive states with at least four years of Democratic control — Hansen does not demonstrate that the unified Democratic control actually preceded the tax adoption. If realignment and unified control are the critical components, one needs to show that the tax adoption occurred closely *after* the realignment.

Such complications are not necessarily fatal for Hansen's larger arguments. As noted, her discussion appears to envision an interactive relationship among economic crisis, political realignment, unified government control, and major fiscal policy changes. At a minimum, however, one can say that Hansen has not framed the statistical argument as well as one might like. Even more significantly, her empirical findings do not appear to

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<sup>14</sup> Hansen 1983, Table 5.3, p. 158.

support a general theory linking tax adoptions and unified government control. It is possible that unified government control was especially important for sales tax adoptions during the 1930s. However, for other taxes (individual and corporate income taxes) and even for general sales taxes after the 1930s, the association between unified government control and the likelihood of tax adoption is hardly different than what one would expect from chance alone.

Hansen's approach to the topic is also used by two other researchers prominent in the comparative state politics literature on tax adoptions, Frances Stokes Berry and William D. Berry. Frances Berry's dissertation addresses the subject, and the two authors have published various articles dealing with both tax adoptions and tax increases. Their arguments are couched in terms of a "political opportunity" framework. After exploring several leads, they ultimately emphasize three critical factors for understanding the timing of major tax adoptions:

Tax adoptions have been rare events during the twentieth century. But they are much less rare than normal when politicians find that three economic and political conditions converge simultaneously to create the opportunity for a tax adoption with minimized political risk: a long time until the next election, a fiscal crisis, and the presence of neighboring states that have previously (or recently) adopted.<sup>15</sup>

Each of those findings suffers from under-examination. They will be taken up in reverse order. First, the Berrys' emphasis on the presence of nearby adopters is motivated by the idea that political resistance to a new tax will be reduced if interest groups, voters, and political leaders are familiar with the tax in nearby state — presumably states that are also economically, politically, and culturally similar. And therein lies the difficulty. Aside from any questions about the strength and validity of findings in support of a diffusion model (or "neighbor state" model) of tax adoptions, the deeper question is what diffusion variables really measure. They could be capturing reduced political

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<sup>15</sup> Frances Stokes Berry and Berry 1992, p. 738. Also see Frances Stokes Berry 1987, Frances Stokes Berry and Berry 1990, and Frances Stokes Berry and Berry 1994.

resistance due to the presence of nearby exemplars (the diffusion hypothesis); on the other hand, they might be capturing similarity along economic, political, or cultural dimensions that are the underlying causal factors. Second, the Berrys' emphasis on the election cycle — whereby taxes tend to be adopted in years farthest from the next election — is undermined by both a natural logic of gubernatorial terms (waning influence during lame-duck years) and a structural feature of many state legislative calendars (biennial sessions). Third, the Berrys' emphasis on fiscal crisis seems correct but not very interesting in a vague specification. Indeed, while fiscal crises have tangible indicators (they are not merely invented), they are always, in some sense, politically defined. One suspects that some form of fiscal "crisis" always accompanies major changes in fiscal structure. The more interesting question is how fiscal crisis interacts with, and is defined by, the political environment.

Taken in combination, the Berrys' three major variables of interest do not provide very much leverage in distinguishing adopters and non-adopters during the most critical phase of state tax adoptions, the 1930s. All states possess elections cycles; fiscal crisis was ubiquitous (although variation in severity might have been important); and the geographical pattern of tax adoptions was scattershot, providing most states with an ample supply of neighboring exemplars.

The Berrys' work also suffers from two significant technical problems. The first stems from their use of event history analysis, which is a technique for applying regression models to pooled longitudinal event data. The event data consists of a set of *state-years* that represents the *at-risk* population at any point in time during the period analyzed by the model. For example, to create event history data for general sales tax adoptions covering the period 1930-1970, one would begin in 1930. At the start of the year, no states had adopted the tax, so all 48 states were "at risk" of adopting a general sales tax. One would add 48 state-year cases to the dataset, one for each state in 1930. Since Mississippi adopted a general sales tax in 1930 (recall Table 24), the state would not be

included in the at-risk population for any subsequent years. Thus, for 1931 one would add only 47 state-year cases to the dataset. Proceeding in this fashion, the full dataset would end up with 877 state-year cases. The dependent variable in the analysis is the probability of a state adopting the tax, and this variable is coded as 0 (if a state did not adopt the tax in the year represented by a state-year case) or 1 (if the state did adopt the tax). With such a dataset we can then use the techniques of logit or probit regression to determine whether any socioeconomic or political predictor variables are statistically associated with our dependent variable. In the abstract, the approach is sound; however, when applied to twentieth-century state tax adoptions, a basic formulation of an event history analysis is severely biased. The source of the problem is the skewed distribution of adopters over time. For example, half of the general sales tax adoptions occurred within a very short period in the 1930s. This means that adopters (those with a value of 1 on our dependent variable) are more heavily clustered at the beginning of the period studied than the non-adopters are. In the case of the general sales tax, 50 percent of adopters cases are found in the 1930-1938 period, whereas only 36 percent of non-adopters cases are in the same period. Any predictor variables that exhibit a time trend will have either exaggerated or muted associations with our dependent variable — unless the predictor variables are modified in some fashion to remove the time trend, something the Berrys' analysis does not appear to do.<sup>16</sup>

The second problem with the Berrys' analysis of state tax adoptions is that it frequently aggregates tax adoptions of all kinds — sales, income, fuel, cigarette, and so forth. Given the substantial historical and political differences among these taxes, such an agglomeration can result in only the most generic and ahistorical of findings.

Finally, it is worth mentioning a short article by Kent Portney that addresses the matter of tax choice directly. Portney begins by categorizing the states according to their tax preferences — specifically, the chronological order in which they adopted the twentieth

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<sup>16</sup> On event history analysis, see Allison 1984.

century's major new taxes: general sales, personal income, and corporate income. He then examines whether these tax preferences exhibit a statistical relationship with a common method of categorizing state party systems: one-party Democratic; one-party Republican; competitive with frequent unified party control; and competitive with frequent divided control. A suggestive pattern emerges. One-party states, both Democratic and Republican, have shown a preference for exploiting personal and corporate income taxation before sales taxation. Competitive states, meanwhile, have tended to resort last to personal income taxation. Although the finding is intriguing, the analysis suffers from fundamental problems of chronology. The political classification that Portney uses is based on party control of state governments during the 1947-1966 period; however, many of the tax adoptions occurred during the first half of the century. If the argument is that the partisan competitive environment affects tax choices, we need to examine political conditions *before* taxes were adopted, not after. Portney's research approach also suffers from a crippled and narrow measurement of chronology. Consider, for example, the states of California and Michigan. Both adopted a general sales tax in 1933, but California quickly added a personal income tax two years later, a move partly driven by negative reactions against the recently adopted sales tax. Michigan, on the other hand, did not adopt an income tax until 1967 and had never seriously considered adopting one during the 1930s. By Portney's reckoning, these two states exhibit identical patterns of tax preference: general sales tax preferred over individual income tax. By a reckoning more attentive to historical eras and actual events, however, the two states are quite different: California adopted its two taxes roughly during a single political episode, while Michigan exhibited a clearer historical preference for sales taxation. Finally, as emphasized in the narrative chapters of this dissertation, the difference between tax adoption and tax use can be large, especially as it relates to the history of income taxation, which was notable for being widely adopted but hardly used, at least by most states, during the first half of the century.<sup>17</sup>

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<sup>17</sup> Portney 1980.

Taken as a whole, then, the available literature on tax adoptions suffers because it tends to ignore history. Tax adoptions are frequently viewed as abstract political events. In some cases, adoptions of very different kinds of taxes are agglomerated; and even among those who present results separately by tax, the considered explanations often treat the political dynamics of tax adoptions as invariant across different taxes. Similarly, almost no consideration is given to potential differences between tax adoptions in different historical eras. When statistical findings are presented, they are almost never examined in the context of other historical evidence, either quantitative or qualitative, to judge the soundness and applicability of the findings. Finally, explanatory models presumably supported by the statistical analyses are not presented along with information about particular historical events — the tax adoptions themselves — that might serve to reinforce, modify, or reject the interpretation given to the statistical results.

### **Analysis of pre-1940 income and sales tax adoptions**

My analysis of tax adoptions is focused on two areas. The first, presented in this section, deals with individual income and general sales tax adoptions before 1940. For each tax, an examination was conducted to discover socioeconomic or political variables that help to distinguish adopters from non-adopters. The strongest findings from this area deal with general sales tax adoptions during the 1930s and direct our attention back to the issue of unified control of state government. A closely related analysis of sales tax reliance at the end of the 1930s is used to supplement those findings — in effect, demonstrating that statistical patterns in *adoption* were translated into *usage*.

The second part of the analysis, presented in the next section, examines tax adoptions over the course of the twentieth century through the lens of policy diffusion in order to test the idea that the likelihood of adopting a tax is significantly increased if neighboring states have already adopted it. That analysis covers six taxes over the entire century.

If we consider the two taxes that would ultimately become the dominant revenue generators during the last half of the twentieth century — general sales and individual income taxes — most of the major tax adoptions of the modern period occurred before 1940: 74 percent of individual income taxes and 53 percent of general sales taxes. Only 7 states exited the 1930s without having adopted income taxation, general sales taxation, or both. In the case of general sales taxes, the policy adoptions were heavily concentrated not merely during the 1930s but in a short period within that decade. In the case of pre-1940 individual income taxes, 12 adoptions occurred before 1929 and 19 after (recall Tables 23, 24, 25, and 26). As emphasized in the dissertation's narrative chapters, the dichotomy between states that adopted enduring taxes during the 1930s and states that did not is a bit too stark. Recall, for example, that during the Great Depression 9 states adopted general sales taxes that subsequently expired, were repealed, or were held unconstitutional. Income taxation was similarly filled with false starts. The quantitative analysis in this chapter does not overly concern itself with such complications.

One striking feature of the historical record of major state tax adoptions was their regional pattern. The same region that had been so distinctive early in the century — the Northeast, in its early shift away from the general property tax — was also distinctive during the 1930s in its avoidance of sales taxation. States from the region did not adopt general sales taxes, and they used motor fuel taxation less aggressively. Geographical patterns can also be observed beyond the confines of the 1930s. Individual income tax adoptions, for example, were geographically ubiquitous before World War II and geographically confined thereafter: among the 11 post-war adoptions, only one of them (West Virginia) occurred outside the Northeast and Midwest. By contrast, during the same period general sales tax adoptions were geographically widespread.



More formally, we can observe the strong regional pattern in pre-1940 general sales tax adoptions in a few different ways. As shown in Table 31, the Midwest and West were the regions with the highest rates of general sales tax adoption before World War II. A somewhat lower rate of adoptions occurred in the South, and none occurred in the Northeast. This regional pattern has a few correlates among the socioeconomic variables that also have regional associations. Socioeconomic development indicators (for example, manufacturing employment as a percentage of the population) tend to have moderately negative associations with sales tax adoptions. Pre-1940 individual income tax adoptions, by contrast, have much weaker statistical associations — both with region, as shown in Table 31, and with a variety of socioeconomic and political variables. Similarly, there was virtually no statistical relationship between the adoption of individual income taxes and the adoption of general sales taxes. To put the same point in a different way, income taxation had become widespread by the end of the 1930s, and knowing whether a state had adopted an individual income tax provides no leverage on one's ability to predict whether a state had adopted a general sales tax.

The political indicators explored in the analysis of tax reliance (*dem\_pres*, *turnout\_pres*, and *compet\_pres*; recall Table 28) showed even weaker relationships with pre-1940 tax adoptions than they did with tax reliance. In addition, measures capturing the difference between Democratic and Republican control of state government showed no strong associations with whether a state adopted general sales or individual income taxes. This absence of a relationship was confirmed in the political case studies covered in Chapter 9, which repeatedly illustrate the irrelevance, fluidity, and unpredictability of fiscal outcomes with respect to party control even within individual states, let alone across the entire nation.

There was one striking exception to the general weakness of political predictors for tax adoptions during the 1930s. It returns us to the theme emphasized by Susan Hansen — namely, whether state government is unified, with both the governor's office and the

legislature controlled by the same political party. Both Hansen and Berry had found suggestive evidence indicating the importance of unified control; however, their analyses were marred by various technical deficiencies and, even more important, by a lack of historical context. In conjunction with the discussion in Chapter 9, the findings presented here take partial step toward addressing some of those deficiencies.

Among the 23 durable general sales tax adoptions during the 1930s, 21 occurred under conditions of unified government (the two exceptions were North Dakota and Kansas). Not only did general sales tax adoptions occur during precise moments of unified party control of state government, but the tax adoptions occurred within states that had a wider track record of unified control during the 1930s. The latter point is illustrated in Table 32, which provides information for two groups of states, those that did and did not adopt a general sales tax before 1940. Those two groups are evenly divided, with 23 states in each (Minnesota and Nebraska, both non-adopters, are excluded because they had non-partisan legislatures). During the critical 1932-1938 period, when most general sales tax adoptions occurred, there were 184 states governments (4 biennial periods multiplied by 46 states). Among the adopting states, the average number of unified governments was significantly higher than the average among the non-adopting states (3.8 compared to 2.9, with the maximum possible value being 4, since there were 4 biennial periods). In other words, during the 1930s, general sales tax adoptions occurred (a) almost always at moments of unified control (21 out of 23 times), and (b) within political environments that were unified more consistently (as shown in Table 32).

The solid relationship between adopting a general sales tax during the Great Depression and a state's frequency of unified government control during the critical 1932-1938 period can be illustrated more rigorously. As shown in Table 33, 63 percent of states that had unified governments throughout the entire 1932-1938 period ( $n_{unig\_30s} = 4$ ) adopted a general sales tax, whereas only 10 percent of states with 2 or fewer unified governments adopted the tax. The same analysis for pre-1940 income tax adoptions,

however, show almost no relationship between income tax adoption and the number of unified governments during the 1932-1938 period.

If we combine the regional patterns noted in Table 31 and the association with unified government control shown in Table 33, we obtain a strong statistical model predicting general sales tax adoption during the Great Depression. Table 34 provides such a model, in the form of a logistic regression against *has\_sg*, a dichotomous variable indicating whether a state adopted the tax. The model includes Census region and a measure of the number of unified governments that a state had during the 1932-1938 period (*n\_unig\_30s*). These two variables account for 48 to 64 percent of the variation in the dependent variable, depending on the  $R^2$  measure used. Similar logistic regressions using socioeconomic and other political predictor variables were not particularly successful. Very weak results (with  $R^2$  values on the order of 0.10) were obtained in the same regressions against *has\_ii*.

The statistical patterns depicted in Table 34 for general sales tax adoptions can be extended forward to the issue of tax usage — specifically, sales tax reliance roughly at the end of the Depression-era wave of tax adoptions. We can see an intuitive presentation of the statistical relationships in Table 35, which provides mean sales tax reliance in 1937, broken down by region and by the number of unified governments during the 1932-1938 period. As noted, the Northeast was distinctive in avoiding sales taxation. Moreover, within each region, the pattern was for higher sales tax reliance to be associated with the prevalence of unified governments.

Table 36 presents those relationships more formally as three sets of regression models, one set for each tax reliance variable: overall, general, and motor fuel. Each set contains three regressions: one using just region; another using two measures of the number of unified governments during the 1932-1938 period (*unig\_dem* for Democratic governments and *unig\_rep* for Republican governments); and a combined regression

using both types of predictor variables. The regression results for total sales tax reliance are particularly strong, accounting for roughly 60 percent of the variance in the dependent variable, and with all regression parameters being statistically significant. Also noteworthy is that both unified government variables point in the same direction: the prevalence of unified government was associated with sales tax usage, regardless of political party. The only difference between the two measures was the *magnitude* of their association with the sales tax reliance, with the Democratic variable's coefficient being roughly twice as large as the Republican variable's coefficient. Whether this difference hinged on actual partisan difference is far from certain. The 1930s were characterized by a large swing in party politics toward the Democrats. It is quite likely that among the unified governments, the strength of Democratic majorities was notably larger than the strength of Republican majorities. In other words, the seemingly bigger impact of `unig_dem` relative to `unig_rep` might have more to do with the decisiveness of the majorities than with differences in taxing behavior across the two parties.

### **Policy diffusion and the hunt for spreading inkblots**

#### **Historiographic overview**

One branch of the study of state policy making has concerned itself with the diffusion of policies from state to state. Drawing on a set of ideas that had been deployed in fields like technology transfer, several political scientists began in the late 1960s and early 1970s to consider how comparative state policy studies might be framed as diffusion research problems.

Underlying much of this research is a political model that begins with Jack Walker's idea that "state officials make most of their decisions by analogy". In other words, when confronting the complex task of governance, administrative and political leaders do not consider an exhaustive range of options — neither when defining problem areas

requiring a policy solution, nor when proposing alternatives in response to defined problems. Instead, policy leaders turn to other states for cues. For a variety of reasons, nearby states are likely to be the ones to which leaders turn most readily. Neighboring states frequently share a variety of economic, political, social, and cultural characteristics. Such states will tend to experience similar problems, and their approaches to problems will seem more legitimate. Also, one suspects that the professional interactions and lines of communication between the political elites of neighboring states are more established. Furthermore, policy adoptions by states considered to be legitimate points of reference provide officials with the positive examples to overcome inertia and policy resistance. In policy areas where interstate competition is commonly thought to be important (taxes and business regulation, for example), nearby adoptions can take the sting out of a policy's downside or, conversely, increase the competitive pressure to adopt a policy in order to reap its benefits.<sup>18</sup>

If the neighbor-emulation model of state policy making is useful, one should be able to detect its presence by examining the spatial diffusion of policies over time. A perfect verification of the model might show a policy beginning in some innovative state — say, Wisconsin's 1911 adoption of an income tax — and marching steadily across the map as states followed the lead of their neighbors. Walker used the phrase "spreading inkblots" to describe how this might look on a researcher's map.<sup>19</sup> A slightly different spatial pattern would be one in which leading states in various regions adopted a policy, and then the policy spread outward from regional centers of innovativeness. Such a diffusion pattern is sometimes characterized as "hierarchical." With this diffusion metaphor in mind, much of the early policy diffusion research focused on identifying those states that exhibited a general tendency toward policy innovativeness — the states at the top of the diffusion hierarchy — and, conversely, those states that tended to be policy

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<sup>18</sup> For some of the political science literature on state policy diffusion, see Walker 1969, quote from p. 889; Gray 1973; Walker 1973; Eyestone 1977; I. Feller and Menzel 1977; Robert L. Savage 1978; Haynes, Kumar, and Brigs 1983; Robert L. Savage 1985; France Stokes Berry 1994; Sharkansky 1969a; Lowery and Sigelman 1981; Lowery, Sigelman, and Smith 1983; Mooney and Lee 1995.

<sup>19</sup> Walker 1973, p. 1187.

laggards. Some researchers attempted to construct general measures of innovativeness by examining adoption dates across a wide range of policy areas. Others countered that "innovativeness" was likely to be a state characteristic that varied according to the historical era or policy area, and they constructed innovativeness measures that were circumscribed accordingly.

While the debate over the measurement and generality of policy innovativeness was waged, little attention was paid to the spatial predictions of the underlying political model. Walker himself, for example, used multiple classification analysis to identify regional groupings of states according to their adoption patterns across a range of policies and to specify innovative states within those groups, but he did not put the spreading-inkblots metaphor to the direct test by examining particular policies and their spatial diffusion patterns.

There are a few exceptions to the diffusion literature's tendency to ignore its core spatial predictions. One was a study by James M. Lutz of the spread of seven professional licensing policies in the nineteenth and twentieth centuries. Lutz begins with the idea that one ought to be able to define some spatial measures that would distinguish policy adopters from non-adopters. For example, a score could be assigned to each state based simply on the number of its neighbors that have already adopted a particular policy (*neighbor counts*). Alternatively, to control for the fact that some states have many more neighbors than others, scores could be based on the percentage of neighbors that have the policy (*neighbor proportions*). If the spreading-inkblots model is useful, for each year or time period in the course of a policy's diffusion, we would expect adopting states to score significantly higher than non-adopters. Lutz uses t-tests to determine whether adopters and non-adopters differed significantly on several spatial proximity measures. A few of the licensing laws showed almost no spatial

pattern to support the theory. The others provided, at best, sporadic support: for some time periods the evidence was suggestive, but for others it was not.<sup>20</sup>

Conveniently for my purposes, another exception in the diffusion literature's disregard for its own spatial predictions comes from the field of state taxation. In her dissertation, Frances Stokes Berry uses a computer simulation to test for spatial patterns in the diffusion of three tax policies: personal income taxes, general sales taxes, and state lotteries. The starting point, again, is the hypothesis that a state will be more likely to adopt a policy if it has neighbors who have already adopted the policy. Berry's simulation program assigns a set of adoption probabilities to the states: the more neighbors that already have the tax on the books, the higher a state's probability. The simulation then uses these probabilities to randomly select a new group of adopters for the upcoming year. This process continues until the number of simulated adoptions equals the number of adoptions that actually occurred. At this point, Berry computes a rank-order correlation between the states' actual and simulated years of adoption. By repeating the process 100 times, Berry arrived at a grand average of the 100 *simulated-to-actual rank-order correlations* — in other words, an average correlation between real adoption data and adoption data simulated according to the spatial predictions of the neighbor-emulation model.<sup>21</sup>

At first glance, the average correlations from the simulation are unimpressive: between 0.07 and 0.17, depending on the tax and the set of adoption probabilities used. Berry points out, however, that the simulations contain a high degree of randomness, due to the low probabilities that are used in the algorithm (never more than 0.25, even for a state fully surrounded by prior adopters). As a result, the simulations themselves exhibit very low correlations with each other. Berry uses this fact to make a case for the success of the model. She computes the extent to which the simulations themselves tend to correlate with each other and uses this figure as an upper frame of reference against

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<sup>20</sup> James M. Lutz 1986.

<sup>21</sup> Frances Stokes Berry 1987.

which to judge the strength of the average simulated-to-actual rank-order correlations. When set in this context, the seemingly unimpressive average correlations fare better, several times exceeding 80 percent of the value of the upper reference point. The favorable comparisons to the upper reference are strong for the sales tax and lottery, but not for the income tax. The income tax results do compare somewhat favorably, however, to the other frame of reference that Berry uses — namely, a lower reference point that is determined by running the computer simulation on a set of randomly assigned adoption data and computing the resulting average simulated-to-actual rank-order correlation. Notwithstanding the mixed results for the income tax, Berry concludes that when the results are viewed against both frames of reference, "all three of the taxes consistently support [the neighbor-emulation] hypothesis."<sup>22</sup>

A fundamental problem with Berry's project is that the positive findings hinge on whether the upper frame of reference is sufficiently stringent. One becomes suspicious, for example, when a few of the average simulated-to-actual correlations turn out to be *larger* than the upper reference point. Either reality exceeds social scientific expectations or her statistical test is too easy.

### **A better test**

Taking methodological cues from Lutz and Berry, I set out to put the spreading-inkblots hypothesis to a test of my own. My motivation for testing the model was more historiographic than substantive. On its face, the theory raises suspicions. It presents a mechanistic view of how state policy making operates and, more importantly, the underlying political theory (officials making decisions by analogy) begs a larger question: even if states appear to emulate their neighbors, the deeper cause might be the social, economic, political, and cultural characteristics that nearby states tend to share.

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<sup>22</sup> Frances Stokes Berry 1987, p. 141.



Nonetheless, in the field of comparative tax policy research — limited as it is — the model has played a noteworthy role, and I could not ignore it in my own research.

Being inclined to view the theory with skepticism, I thought an application of the model to tax adoptions might be useful as a kind of disproof. If ever a policy area were likely to support the model, tax adoptions might be it, particularly if there is any truth to the idea that nearby adoptions can take some of the political sting out of an unpopular policy. Voters might be more likely to view a new tax as legitimate if they see that other voters in nearby states pay similar levies. Also, one of the most frequent objections to new taxation is the concern that it will put a state at a competitive disadvantage in the struggle for new investment and economic growth. This fear loses some of its urgency if neighboring states — the most direct competitors — already have the tax.

I began by looking at the taxes studied by Berry. A significant drawback of her method is its unfamiliarity and complexity. Walker's metaphor of spreading inkblots is easily grasped and I wanted a statistical test that would approximate this intuitive idea. I started making color-coded maps to track the diffusion of various taxes. After I had colored a few, I noticed a recurring pattern. During the first 10 to 15 adoptions, the model usually did not fare well. But soon after that point, almost every adoption was a winner: as I colored in Idaho's 1931 income tax adoption, I would notice that neighboring Oregon was already shaded in; when Alabama adopted in 1933, I was impressed to see that neighboring Georgia, Tennessee, and Mississippi had already paved the way. And so it went, until I realized that I would be hard pressed to find a single adoption, real or hypothetical, that would fail the test.

The first insight, then, is that casual observation requires too little of the theory. This point can be shown more precisely by using an artificial example. Figure 27 shows a nation of 16 states in the middle of a policy diffusion process. Even with only one-quarter of the states having adopted the policy, nearly every state has at least one prior-

adopting neighbor (the exceptions are states N and O). Random selection of the next adopter would yield seemingly favorable evidence over 80 percent of the time ( $10 / 12 = 0.83$ ). More generally, there are 1820 ways to select 4 initial adopters from the 16 states shown in Figure 27. For each of those 1820 combinations, one can count the number of remaining states that lack a prior-adopting neighbor. Such states, if they happened to be the next adopter, could serve as evidence against the neighbor-emulation theory in its casual formulation. Table 37 shows a frequency distribution for those 1820 combinations. The first column shows the possible outcomes: depending on which 4 initial adopters are selected, there can be as few as 0 or as many as 9 states that lack a prior-adopting neighbor. The second column shows how the 1820 combinations are distributed across the possible outcomes. Table 37 indicates that the specific example in Figure 27 is hardly extreme: 47 percent of the combinations yield two or fewer states without prior-adopting neighbors. The problem at hand — namely, the difficulty of finding evidence that could falsify the theory — is expressed more precisely in the last column, which shows the falsification probabilities associated with each of the outcomes. This probability is 0.17 for the example in Figure 27 ( $2 / 12 = 0.17$ ). As another example, consider the situation when there is a 50 percent chance of randomly selecting the next adopter that would falsify the theory: this is the row in Table 37 that has 6 states lacking a prior-adopting neighbor, out of a total of 12 remaining states. The problem, of course, is that nearly all of the combinations (95 percent) yield even lower falsification probabilities.

If the neighbor-emulation model is to have any force it must mean something beyond the casual notion that policies tend to spread from state to neighboring state. Once a policy reaches a moderate level of diffusion (just one quarter of all cases in the hypothetical nation in Figure 27), the casual version of the theory is almost never wrong.

The obvious remedy is to impose a more stringent statistical test. As usual, we do this by requiring favorable outcomes to be deviant in a probabilistic sense. In the example from

Figure 27, the most deviant evidence in favor of the theory would be if state D were the next adopter, since it is the only state bordered by three prior adopters. The chance of picking this state randomly is only 1 in 12 (0.083). Notice that this figure is actually a p-value — namely, the probability, through sheer chance, of obtaining a statistic at least as favorable to the proposed theory as the one actually obtained. Also notice that even this most-favorable case fails to attain the conventional level of statistical significance that one finds in social scientific research (a p-value of 0.05 or less). Here, then, is another point worth noting: although a casual statement of the neighbor-emulation theory demands too little of the data, conventional thresholds for statistical significance may be unattainable due to the mathematical structure of the problem at hand, especially as the number of at-risk states becomes small.

My test of the neighbor-emulation theory is analogous to the computations that accompany the hypothetical nation in Figure 27: a brute-force computation of p-values. Like Lutz, I begin by assigning a score to all at-risk states. Various types of scoring can be used, but they all try to quantify a state's proximity to other states that have already adopted the tax in question. For example, one scoring method simply counts prior-adopting neighbors. Another computes the percentage of a state's neighbors that have already adopted. To each of these scoring methods — counts or percentages — one can add other complications. For example, the definition of a "neighboring state" can be expanded in various ways. Another possible complication is to use a diminishing scoring method, under the theory that a state's policy making is most heavily influenced by the first few prior-adopting neighbors and that subsequent additions to the number of surrounding neighbors has little impact. Finally, in addition to scoring by neighbor counts and neighbor percentages, I followed Lutz's lead and used a centrality measure that attempts to quantify a state's geographical proximity to all prior adopters.

Additional details on different scoring methods are provided in Table 38. To simplify the presentation in this discussion, I focus on the results from the most basic scoring

method: regular count, using only the bordering-state neighbor criterion. I examined results from the other scoring methods primarily as a check on the basic measures. Although the different counting procedures did produce different results in particular years, there was general consistency in the trends, broadly considered. The most consistency was found within three pairs of methods — counts (regular and diminished), proportions based on counts (regular and diminished), and centrality measures (regular and proportional). There was also a modest degree of consistency among the four neighbor-based methods (counts and proportions). Minor adjustments to the neighbor-state criteria (for example, including states within 50 miles of each other) had minimal effects on the results. More substantial changes (for example, switching entirely from bordering states to region-based criteria) affected the results noticeably, but such adjustments go beyond the scope of this project — namely, to test the neighbor-emulation model.

Regardless of the scoring particulars, the general method is the same. At the start of each year, one assigns scores to the at-risk states and then computes the average score for the states that adopted the tax during that year. For example, at the beginning of 1929 there were 36 states that had not yet adopted an individual income tax. The two that did adopt during the year, Arkansas and Georgia, had an average of 2.50 prior-adopting neighbors (3 for Arkansas and 2 for Georgia). On casual inspection, this looks fairly compelling for the spreading-inkblots theory, because the average at-risk state only had 1.17 prior-adopting neighbors. But what we really need is a formal measure of how deviant 2.50 is — in other words, a p-value.

The mechanics of computing such a p-value are straightforward. Continuing with the example from 1929, one simply determines where the actual average for the adopting states (2.50) falls within a frequency distribution of averages for every possible combination of 2 adopters chosen from the pool of 36 at-risk states. In just a few cases, the number of combinations was too large for a complete computation (for example, 13

states adopted a general sales tax in 1933, which generates nearly 3 billion combinations). In these situations, I computed an estimated p-value by selecting 100,000 randomly sampled combinations, computing scores for them, and determining where the actual outcome fell within the frequency distribution of the sample.

In addition to computing or estimating p-values year by year, I used another method to subject the model to tests covering historical eras or an entire adoption history. This procedure is similar to the one used by Lutz: a t-test that indicates whether the average scores for adopters and non-adopters in a given year or period are significantly different. My t-test method is slightly different in that I convert the raw scores to *difference scores*. A difference score is a state's score minus the average score for all at-risk states in the year at hand. The conversion to difference scores is needed to avoid biasing the test in favor of the model. Such bias comes from the high correlation between time and average scores: as a policy diffuses, the average number of prior-adopting neighbors rises. Also, the distribution of non-adopters over time will be skewed toward the beginning of the timeline, when the average scores are necessarily low. By contrast, the distribution of adopters tends to be spread more evenly over time. As a result, a raw-score t-test that spans too much of the overall diffusion history will be biased in favor of the neighbor-emulation model. Indeed, one can easily concoct a set of data in which the model fails in every individual year but receives seemingly decisive support in the overall t-test based on raw scores. By converting to difference scores, one controls for the steady increase of average at-risk scores over time.

### **Demonstration of methods: gasoline tax**

The gasoline tax provides a compact example to illustrate the two methods — the *combination method* and the *t-test method*. In 1919, four states adopted this tax. After that, the policy diffused rapidly across the continental United States within a decade.

The combination method provides a year-by-year analysis of a diffusion process. As shown in Table 40, there are only two years during which the average adopter score exceeds the average score for at-risk states, 1922 and 1923. During other relevant years (1920, 1921, 1922, 1925, and 1927) the adopter average is less than or merely equal to the at-risk average. Note also that the initial adoptions in 1919 and the final adoptions in 1929 cannot be subjected to diffusion analysis.

Before considering the details of these results, one must have a clear understanding of the method. Even though it makes intuitive sense to compare scores between two groups — as I have just done, and as the t-test method does — the combination method does not actually make such comparisons. Rather, it *situates the actual adopter average within a distribution of adopter averages* — a distribution computed from every possible combination of adopting states chosen from the population of at-risk states.

Consider 1922 as an example. There were 33 at-risk states: 29 non-adopters and 4 adopters. There are 40,920 ways to select 4 items from a population of 33. By computing an "adopter average" for each of these 40,920 combinations, one can create a complete distribution of scores, within which the actual adopter average (1.75) can be placed (see Table 39). The resulting p-value of 0.41 (16590 / 40920) represents the proportion of scores in the distribution that are at least as favorable to the model as the actual score is. As one can see, even if the diffusion process were controlled by random processes, it would be fairly easy to arrive at a 1922 adopter average of 1.75 or better: it would happen over 40 percent of the time. In order for 1922 to provide compelling support for the neighbor-emulation model, one would want to see a more deviant outcome. The next adoption year, 1923, provides just such a result: its p-value is 0.02, an outcome that is not as easily dismissed as chance.

Even though a year-by-year analysis is useful, one would also like to test the neighbor-emulation model's predictions over longer time periods. If one converts raw scores to

difference scores, a t-test can be used to compare the scores of adopters and non-adopters during particular historical periods or over the course of an entire diffusion process. Although there are no compelling reasons to subdivide the gasoline tax's diffusion into sub-periods, I have done so for illustrative purposes. The first thing to notice in Table 40 about the t-test method is how cases are counted. States are not cases; rather, state-years are. Over a given period, the same state can appear multiple times. For example, Vermont adopted its gasoline tax in 1923. Thus, its 1920, 1921, and 1922 scores are used when computing non-adopter averages, and its 1923 score is used when computing adopter averages. After 1923, Vermont is no longer among the cases. The other point to note is that the p-values are one-tailed because our interest is in testing whether the adopter average is significantly larger than the non-adopter average. In the cases for which the non-adopter average is larger (1920-1921 and 1925-1927), we simply conclude that the model has failed and do not report a p-value. As shown in Table 40, only one of the sub-periods yields supporting results for the neighbor-emulation model (1922-1923,  $p = 0.02$ ). When the entire diffusion process is examined, one finds that adopters scored slightly higher than non-adopters (0.12 versus -0.04). Both intuitively and under formal statistical decision-making rules, this difference is not compelling ( $p = 0.22$ ).

### **Individual income tax**

In Berry's computer simulation exercise, the individual income tax showed the weakest support for the spreading-inkblots theory, but even here she concluded that there was "some evidence that regional emulation affected state adoptions."<sup>23</sup> My results are much less favorable.

Individual income tax adoptions can be grouped into historical periods. After Wisconsin's adoption in 1911, 11 states followed suit within roughly a decade. The

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<sup>23</sup> Frances Stokes Berry 1987, p. 140.

largest group of adoptions (19) is situated in or very near the Great Depression. Finally, 11 more adoptions occurred during the 1960s and 1970s.

As seen in Table 41, one finds almost no support for the model in the first and last waves of adoptions. During the 1910s and early 1920s, adopters fail to score higher than the average at-risk state in every year. These statistical results are reinforced by a view of a map as well: the early adoptions are scattered in shotgun fashion across the eastern two-thirds of the nation. The results for the last wave of adoptions are equally negative: only once, in 1961, do adopters have more prior-adopting neighbors than the average at-risk state, and this difference is not statistically significant ( $p = 0.47$ ). The resoundingly negative findings for these two time periods are consistent under a variety of scoring methods.

The exceptions to the bleak findings are concentrated in a compact historical era. When the Great Depression is taken as a whole and subjected to a t-test, there is a statistically significant difference between adopter and non-adopter scores ( $p = 0.01$ ). When the period is analyzed in more detail, however, the neighbor-emulation model is shown to be neither robust to alternative scoring methods nor consistent from year to year. Four of the eight adoption years in the era yield clearly negative results under all scoring schemes (1930, 1934, 1935, and 1936). The other four years, although positive under counting-based scoring methods, yield much less impressive findings under proportional and centrality-measure scoring.

On the whole, then, neighbor-emulation does not seem to have been a consistent force in the spread of individual income taxation across the states. For most of the century, the relationship, if any, points in the wrong direction, and even the arguably positive findings for the Great Depression are not without qualification.



### **Corporate income tax**

At first glance the corporate income tax looks more promising for the neighbor-emulation model (see Table 42). The first two waves of adoptions are similar to those of the individual income tax: 11 adoptions from 1915 to 1923, and then 19 adoptions from 1929 to 1937. In contrast to the results for the individual income tax, both of these periods show a fairly consistent trend for adopter scores to exceed non-adopter scores — just as the theory would predict. Although only five of the adoption years in these two periods meet even a relaxed standard of statistical significance ( $p < 0.25$ ), the overall t-test results are favorable for both periods.

When the entire diffusion process is examined, the verdict for this tax is only slightly more favorable than for the individual income tax: at best, there was qualified success for the model during particular historical periods. The overall measures portray a rather weak neighbor-emulation effect: difference scores for adopters were slightly higher than those for non-adopters ( $p = 0.14$ ).

### **Cigarette tax**

The results for the cigarette tax are even less favorable to the neighbor-emulation model. In two-thirds of the adoption years, the observed relationship is the opposite of that suggested by the theory, with adopters scoring lower than the average at-risk state. Among the favorable years, only three achieve significance levels below 0.25 (see Table 43). Unlike the income and general sale taxes, the diffusion of the cigarette tax does not immediately suggest any groupings of adoptions into historical eras. But no sub-periods prove to be favorable to the model anyway, even those opportunistically chosen to return positive results.

### **General sales tax**

In Berry's computer simulations, the general sales tax showed the greatest support for the neighbor-emulation model. Although I interpret my findings in a more qualified manner, the general sales tax does show some promise, unlike the generally bleak findings for the taxes discussed so far.

By way of comparison, recall that the individual income tax's adoption history contained two sustained periods during which adopter states consistently failed to score higher than the typical at-risk state. The record for the general sales tax is noticeably different. As shown in Table 44, in 11 of the 17 adoption years, adopters score higher than the at-risk average. Furthermore, these favorable years are, to some extent, concentrated in the two most important historical eras for twentieth-century state tax adoptions, the 1930s and the 1960s.

As with the other taxes, a year-by-year examination of these potentially favorable results turns up some noteworthy qualifications. Of the 11 candidates for adoption years favorable to the model, only 4 of them meet even a relaxed standard of statistical significance ( $p < 0.25$ ).

When one examines larger time periods, the pattern is similarly mixed. Two historical periods — the Great Depression and the 1960s — have a statistically significant difference between the scores of adopters and non-adopters. On the other hand, the era in between clearly fails to support the model. Furthermore, the t-test of the entire adoption history indicates that the difference between adopter and non-adopter scores is not especially compelling ( $p = 0.14$ ).

### **Lottery**

In Berry's computer simulations, the neighbor-emulation model showed more promise when applied to the general sales tax than to the lottery. My results are at odds with her findings in that respect. Indeed, when I weigh the results for the lottery against the results for the other taxes — and even when I examine my hand-colored diffusion maps — I am deeply suspicious of the validity of Berry's simulation method. To put it simply, if the neighbor-emulation model finds support anywhere, it is with the lottery.

Modern state lotteries began in New Hampshire and for more than 15 years were confined to the Northeast and a few adjoining states in the Midwest. By the time the first adoption occurred elsewhere (Arizona, 1981), the nation's northeastern quadrant was approaching saturation. These first 13 adoptions represent about as much support for the neighbor-diffusion model as one could expect. As shown in Table 45, almost every year in this period scores well on the combination method. The t-test for this period indicates that adopters had an average of 1.13 more prior-adopting neighbors than the typical non-adopting state ( $p = 0.00$ ).

Beginning in the 1980s, the results are less decisive. In most years, adopters continue to score higher than the average at-risk state, but the differences are not as pronounced. Also, a view of the map gives the impression of a second center of gravity emerging — namely, the Pacific states and their neighbors. By the late 1980s, it seems as though a threshold has been crossed and lotteries start cropping up all over the place, even in the one regional holdout, the South.

This weakening of support for the model is reflected in the t-test for the 1980s and 1990s. In the 1981-1988 period the difference in scores between adopters and non-adopters is 0.39 ( $p = 0.08$ ) — fairly good when compared to the results for the other taxes, but not when judged against the model's performance for the earlier group of lottery adoptions. And during the 1989-1994 period, adopters and non-adopters hardly differ in the number of prior-adopting neighbors.

## **Conclusion**

In the field of comparative state politics, existing quantitative analyses of tax reliance and tax adoptions are of limited usefulness. Some of the limitations are narrow in scope, such as the various technical deficiencies that were detailed in the preceding discussion. The more fundamental limitations, however, can be summarized under the common theme of ignoring history. Statistical results are not placed in historical context. The analyses rarely transcend the confines of individual cross-sectional analyses. Most of the analyses have not worked with anything other than data from the last third of the twentieth century. And the events that create a tax structure, notably the major tax adoptions themselves, are often treated as generic occurrences unmoored from particular histories. At its weakest moments, the comparative state politics literature on taxation reads like a formulaic linking of regression results to abstract predictions from political or economic models. The problem with such efforts is not necessarily the models themselves, which might be useful frameworks for guiding research under applicable conditions. But context matters. For example, a political model that helps us understand state income tax politics circa 1970 is just as likely to be a hindrance as a help when considering income tax politics during the first half of the twentieth century — both because the meaning of income taxation had changed considerably between the two historical eras and, perhaps even more important, because the wider fiscal contexts were quite different.

For a discussion so critical of the existing literature, this chapter runs some risk of anticlimax. The search for predictors of state tax reliance, for example, yielded few strong findings, the exceptions being for property taxation in the early twentieth century and sales taxation in the 1930s. Similarly, the analysis of tax adoptions during the first half of the twentieth century did not yield many durable affirmative findings. The most notable exception concerned general sales tax adoptions during the 1930s, which had a strong

regional pattern and which occurred not only at *moments of unified party control* but also within *political environments that were unified more consistently*. Finally, the analysis of tax adoptions within a policy diffusion framework largely amounted to a refutation of the framework's applicability. Even under a sympathetic reading of the results, the diffusion model received no more than qualified support for particular taxes during particular eras — notably, the general sales tax during the 1930s. The obvious weakness of the model in accounting for the adoptions of major twentieth-century taxes is illustrated most decisively by comparing the weak findings for the major taxes against those for the state lottery — a minor tax with a diffusion record that does fit the theory's geographical predictions.

What are we to make of these generally weak findings? In combination, the results presented here do not provide a tidy explanation for state fiscal outcomes, nor do they fit easily within an abstract economic or political science model. They do, however, form a sensible picture that reinforces themes emphasized in the narrative chapters of this study.

Before outlining that picture, it is worthwhile to note that the weakness of the findings should not be a shock. As discussed in Chapter 9, tax adoption data hides nearly as much as it reveals. As soon as you start paying close attention to the political narratives behind successful, short-lived, and failed tax adoptions, you see that the binary values in a tax adoption dataset cannot form the basis for a rich understanding. In this light, the mixed quantitative findings might be less surprising. Tax reliance data has similar limitations. One of the most important relates to the issue of fiscal centralization. States differ in the extent to which revenues and expenditures are either centralized (the responsibility of the state) or dispersed (handled by local governments). Such variation can have an effect on observed state tax reliance. One possibility, then, is that our attempts to make sense of phenomena like tax adoptions and tax reliance are being frustrated by the limitations in our ability to measure, thus adding noise to variables in

our models and camouflaging quantitative relationships that might be revealed if our empirical footing were more secure.

Data problems may be the least of our concerns, however. The typical quantitative analysis of state tax reliance suffers from at least some theoretical confusion. Given what we know about the rarity of major tax policy changes, the use of socioeconomic and political variables to predict tax reliance at a point in time is peculiar. Except at moments of large disjuncture, tax reliance is mostly a cumulative product of policy made during at least the previous decade, and arguably even longer. Thus, we might not expect to observe consistent relationships, for example, between *current* tax reliance and *current* measures of the socioeconomic or political environment. To be sure, some of the predictors used in the comparative state politics literature do capture long-range dynamics and thus might exhibit consistent relationships with a variable like tax reliance. Although such observations do not provide unambiguous insights regarding the forces that led states to rely more or less heavily on a given tax, they do provide guidance in interpreting any observed relationships. At a minimum, we can say that, except at points of disjuncture, the only predictors that make any sense for tax reliance are those whose meaning inheres less in the moment at which they are measured and more in the historical processes that they encapsulate.

A reasonable question is whether there are *any* compelling socioeconomic or political correlates of state fiscal structure. The poor-to-mixed results are more than a frustration for researchers in the field. They represent something of a puzzle. As Gary Brooks asked when surveying the literature, what are "the processes by which tax policy is insulated from the impact of socioeconomic and political influences"?<sup>24</sup> Because taxation is fundamental to the relationship between voters and government, one might expect to observe consistently strong associations between political measures and tax reliance; however, such findings do not emerge from most analyses, including those

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<sup>24</sup> Brooks 1980, p. 115.

undertaken here. One insulating factor might be incrementalism, by which policy makers tend to make small modifications to existing policies rather than embarking on entirely new paths. If fiscal decision-making were driven mainly by incremental processes, the statistical association between tax reliance and the evolving socioeconomic and political environment might be loosened. Another insulating factor might be contained specialization. For example, if the recommendations of experts drove most fiscal decisions, we might not observe any relationship between the resulting fiscal structure and various measures of a state's political environment. Yet another factor confounding any tidy relationships between political measures and state tax structure is a dynamic that might be described as the *liberal fiscal dilemma*. In an environment where raising revenue is politically difficult, a central question facing liberals is whether to pursue social spending goals even at the cost of sacrificing commitments to progressive taxation. To the extent that such compromises have been frequent in the history of state fiscal politics during the twentieth century, the association between common political indicators and the resulting tax structure might be muddied.

A different way to make sense of the puzzle is to modify the description slightly, while still drawing upon the points just noted about incrementalism, contained specialization, and the liberal fiscal dilemma. Rather than being insulated from the political system, fiscal politics might be described as *sticky*. Major fiscal policy innovations are rare events. Such changes are not frequently sought by decision makers, due to the political risks inherent in forcing citizens to pay more — or even different — taxes. Moreover, even when major fiscal changes are sought, consensus is not readily achieved in a competitive political system in which all players are actively seeking issues upon which to base an electoral advantage.

To the extent that the fiscal gears are sticky — thus weakening potential statistical associations between the fiscal structure and *current* socioeconomic or political

predictors — our attention turns to the historical record, to the periods when substantial fiscal decisions were made. Viewed from this angle, state fiscal structures in 1960, for example, might owe less to current conditions than to conditions at a time in the past when the environment was more favorable to major fiscal policy change. Once key fiscal choices are made, states tend to exploit the taxes on hand rather than entertaining other major fiscal decisions. In this way, states with similar socioeconomic or political structures in the current environment might nonetheless possess divergent tax systems because of differences — either systematic or idiosyncratic — that existed in the past, at the moment of major tax adoptions.

This way of thinking about the topic finds some support in the quantitative examination discussed in this chapter. The strongest findings to emerge from the analysis were for *early* periods in the history of a new tax instrument.

- During the first few decades of the twentieth century, we observe some strong statistical associations with state property tax reliance. For example, general property tax reliance (a) was negatively associated with socioeconomic indicators measuring urbanization or manufacturing employment, (b) was positively associated with measures of voting for the Democratic party, and (c) exhibited a strong regional pattern. During the same period, reliance on special property taxes exhibited statistical associations that were mirror images of those for general property taxation. Such regression models accounted for 50 to 70 percent of the variation in the dependent tax reliance variable.
- During the 1930s, sales tax adoptions and sales tax reliance exhibited strong positive associations with unified control of state government, regardless of the political party. Sales tax reliance also exhibited a strong regional pattern — one that reiterated the distinctive fiscal history of the Northeast region. For example, a simple regression using only two types of predictor variables (region and



measures of unified control of government) accounted for about 60 percent of the variation in overall sales tax reliance in 1937.

- Even though the neighbor-emulation model did not survive the analysis intact, its geographical predictions were borne out in a couple of localized instances — specifically, for the early phases in the diffusion of general sales taxes and especially state lotteries.

As major new taxes entered the scene — whether it be special and corporate property taxes during the early twentieth century, sales taxation during the 1920s and especially 1930s, or lotteries during the 1970s — one observes some striking statistical relationships. However, these early patterns faded, rapidly in the case of sales taxation and gradually in the case of property taxation, as the new fiscal devices dispersed. Similar observations apply to the policy diffusion results. To the extent that the neighbor-emulation model's geographical predictions were supported (and for several taxes they were not), the pattern was noteworthy only among the initial group of adopters — no more than the first 50 percent of adopters. Perhaps when a policy is rare, a prior-adopter effect in overcoming certain informational and political barriers would be felt the strongest in the nearby states paying closest attention to what is happening just across the border. As a policy becomes more common, the prior-adopter effect becomes spatially diffuse: the word is out, and new adoptions could crop up anywhere.

The inverse of this pattern — that is, that pattern whereby we observe the strongest statistical relationships early in a new tax's history — can be seen in the nearly complete absence of statistical associations for income taxation. The obvious contrast here is between income taxation and general sales taxation. The latter arrived in dramatic fashion during the 1930s, with many states adopting the tax and exploiting it heavily. The diffusion of income taxation was quite different. By the end of the 1930, many

states had adopted income taxes, but usage was generally low. In most states, income taxes were more symbolic than real. A handful of states used income taxation heavily; most did not; and the non-adopters were not statistically unusual — for example, not confined to one region or socioeconomic grouping among the states. Over several decades, income taxation gradually expanded, such that during the last third of the twentieth century it began to rival sales taxation in the aggregate. At least on an intuitive level, this adoption and usage pattern — initially wide but not deep, followed by incremental long-term growth — seems compatible with the absence of strong statistical associations.

Ultimately, fiscal policy is sticky because state governments rarely get over the hurdle of adopting major taxes. This hurdle is more likely to be cleared during times of evident crisis — hence the clustering of major twentieth-century tax adoptions during the Great Depression, for example. The odds also appear to be increased if the crisis is accompanied by unified control of state government by one political party, because that increases the likelihood of overcoming the many obstacles that could — and in fact did — hinder major tax reform. This factor was particularly relevant during the 1930s as general sales taxes were adopted. In more competitive political environments, these regressive taxes were almost always rejected — a finding that agrees with results from the tax progressivity literature covering the 1970s and 1980s.

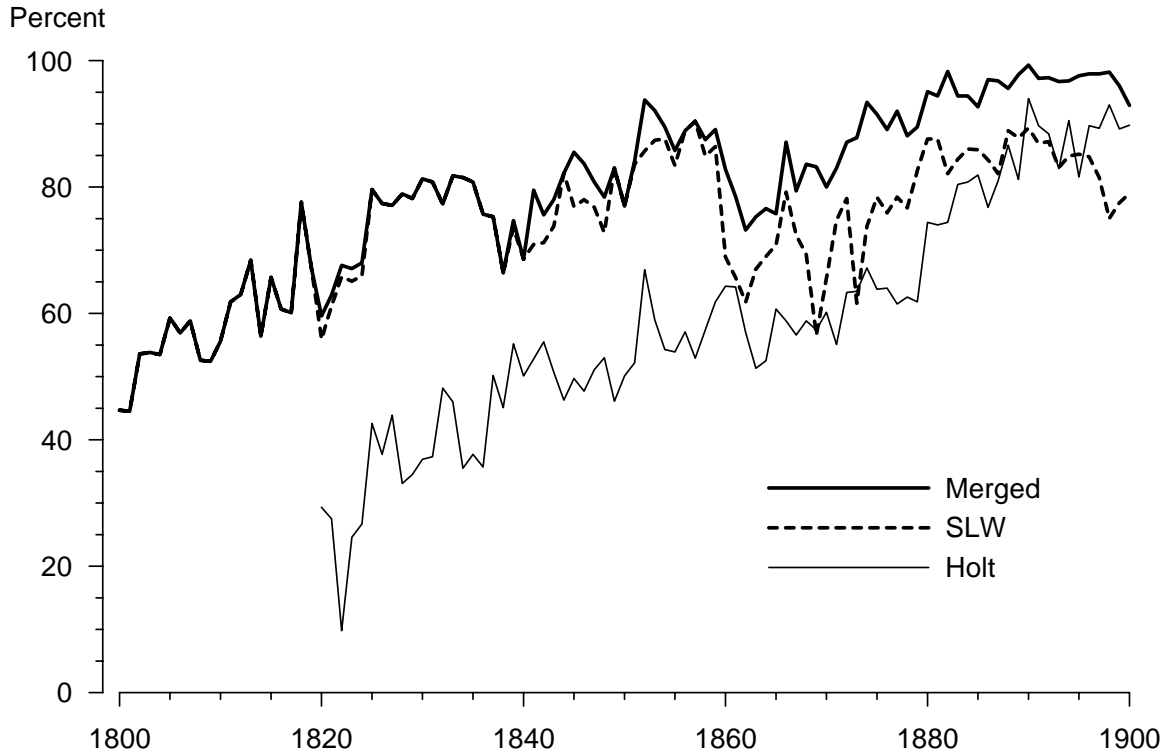
Even though fiscal and economic crisis, along with unified control of state government, might increase the likelihood of a major tax adoption, a political system's ability to clear the hurdle — to adopt a major new tax instrument — also turned on a number of factors that are not readily quantified and that, in some cases, can be described as downright idiosyncratic. We saw this at work in the case studies covered in Chapter 9. Similar forces were at work across all of the states during the 1930s: economic crisis; a breakdown of the property tax system; and a roughly consistent cast characters advocating for one fiscal reform or another. However, when these common factors

interacted with the particulars in a specific state, the outcome was both contingent and unpredictable. Small differences along various dimensions — constitutional language, judicial makeup, traditional fiscal cultures, institutional arrangements, the relative power of interest groups, and even seemingly random bumps in the road — had the capacity to direct states that were otherwise similar along very different fiscal trajectories. And initial steps taken down one path or another often had durable effects, with each fiscal step altering the probabilities of subsequent steps.

Finally, the stickiness of fiscal policy can be reiterated and framed in a slightly different way by returning to what is arguably the least satisfying variable that continually reasserted its statistical relevance in the quantitative results reported in this chapter — namely region. Especially during the early phases of a new tax's history, we observed some striking geographical patterns. As noted already, it is not clear what to make of such patterns. In isolation, region does not provide direct leverage on the problem of understanding state fiscal history. At a minimum, we can say that the statistical power of region does not derive from the factors emphasized by the neighbor-diffusion model: for most taxes and for most of the twentieth century, the geographical predictions of that model were not well supported. What the geographical patterns do appear to support is a general claim that there have been some fairly durable patterns of conducting fiscal politics within different parts of the nation. Such geographical patterns are perhaps an indicator of a deeper phenomenon — namely, path dependency, which is another way of emphasizing the stickiness of fiscal policy and the importance of history.

## **Appendix 2. Figures**

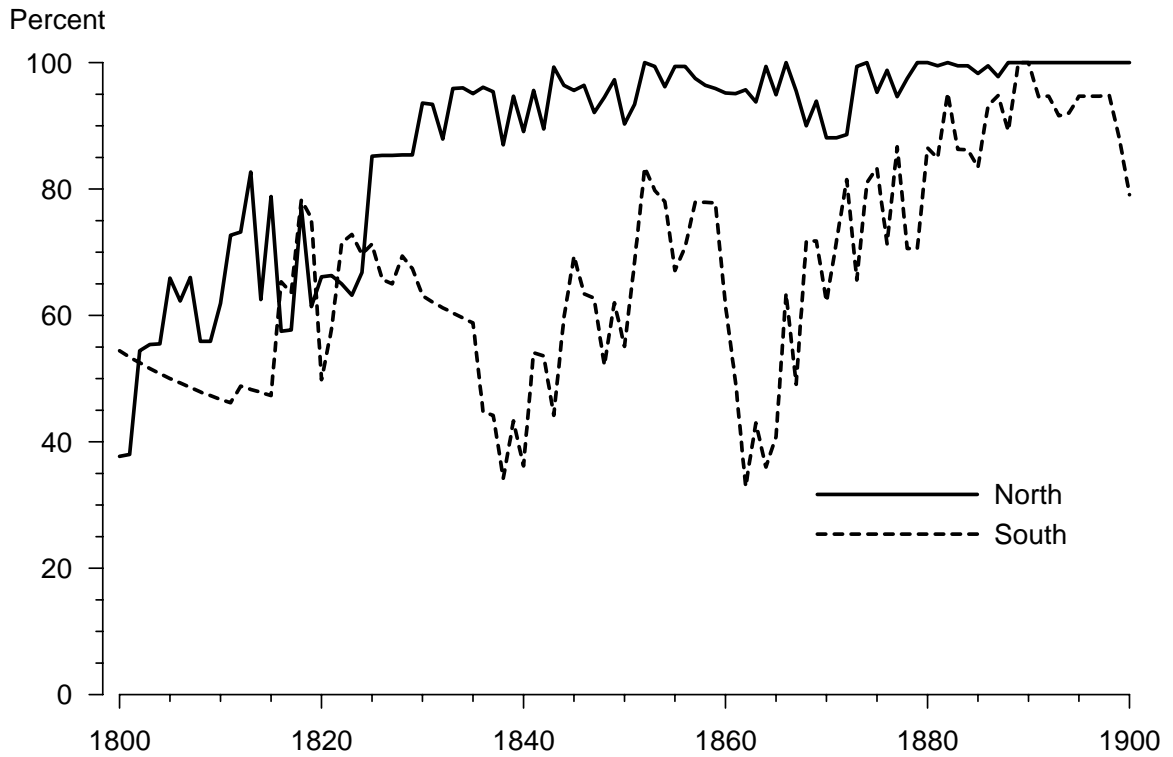
**Figure 1. Percentage of the U.S. population covered by three state fiscal datasets:  
1800-1900**



The values graphed are averages of two percentages, namely those for total state expenditure and revenue. The coverage levels for these two fiscal categories closely parallel each other in all three datasets.

State-level population: annual values created through linear interpolation of decennial values from Dataset HSUS, series Aa2244-6550.

**Figure 2. Percentage of regional population covered by the merged dataset — North and South: 1800-1900**

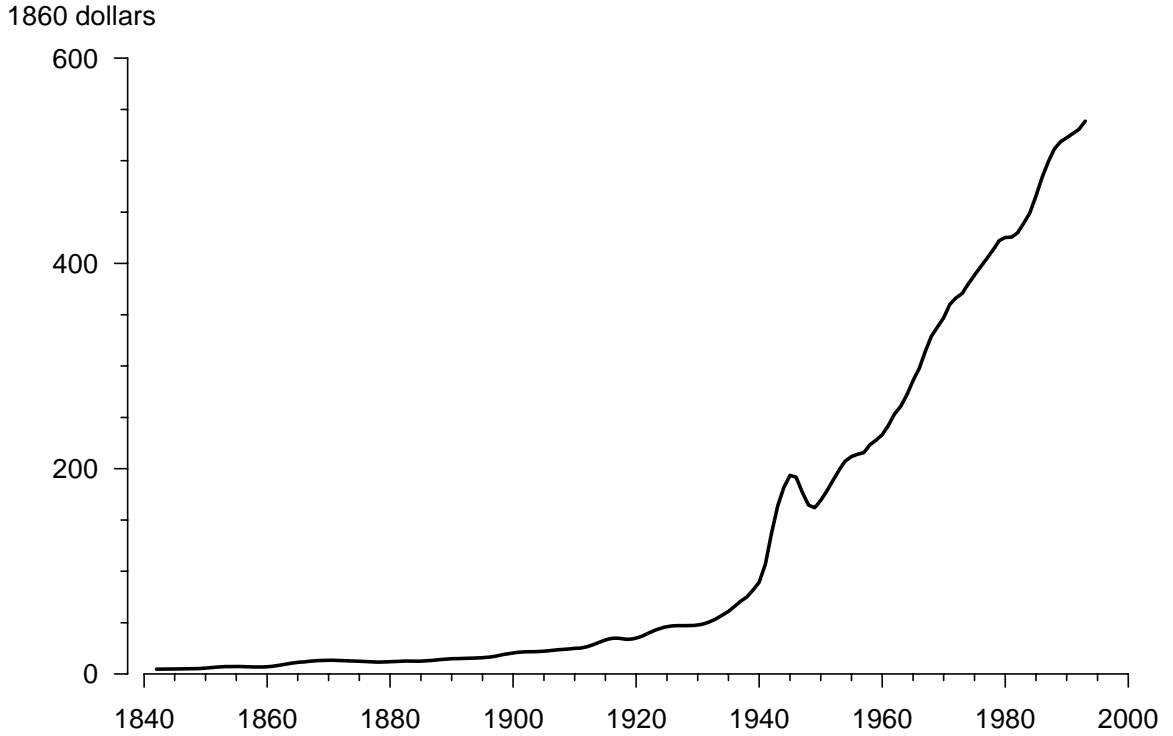


See the text for Figure 1.

The Central and West regions are not shown (see Appendix 5 regarding regional classification). During the period when the number of states in these regions was very small (1850s and 1860s), the coverage fluctuates wildly from year to year. By the 1870s, however, these regions settle into a pattern similar to that for the North. Because these two regions represent such a small portion of U.S. population (in combination less than 10 percent through 1880), they have a minor impact both on per capita fiscal measures for the nation and on overall characterizations of the coverage level for these datasets, especially for the first three-quarters of the nineteenth century.

State-level population: see Figure 1.

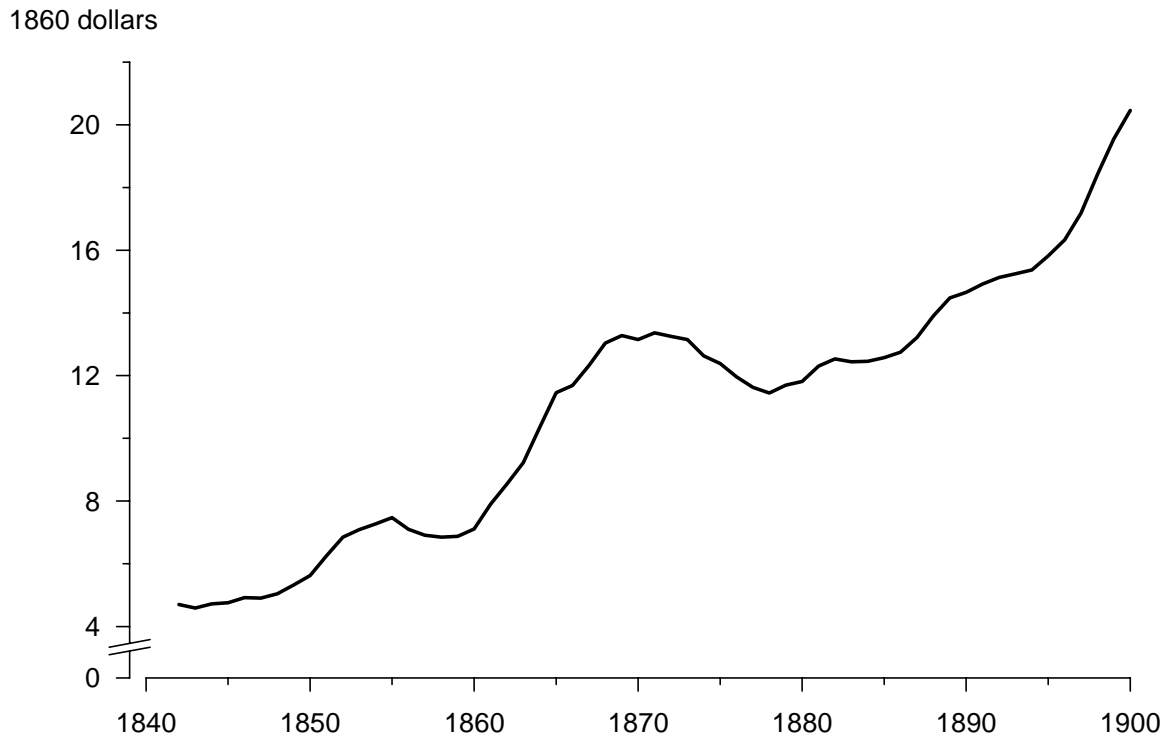
**Figure 3. Total government revenue per capita: 1840-1995**



State revenue through 1901: Dataset SLWH19. Local revenue through 1910: calculated with interpolation using data from Wallis 2000a, Table 1. State and local revenue beginning in 1902: Dataset HSUS, series Ea247. Federal revenue: through 1901, Dataset HSUS, series Ea588; thereafter, Dataset HSUS, series Ea132. Population: Dataset HSUS, series Aa7. Consumer price index to convert to real (1860) dollars: Dataset HSUS, series Cc2.

For long-term display purposes, values are shown as five-year moving averages.

**Figure 4. Total government revenue per capita: 1840-1900**

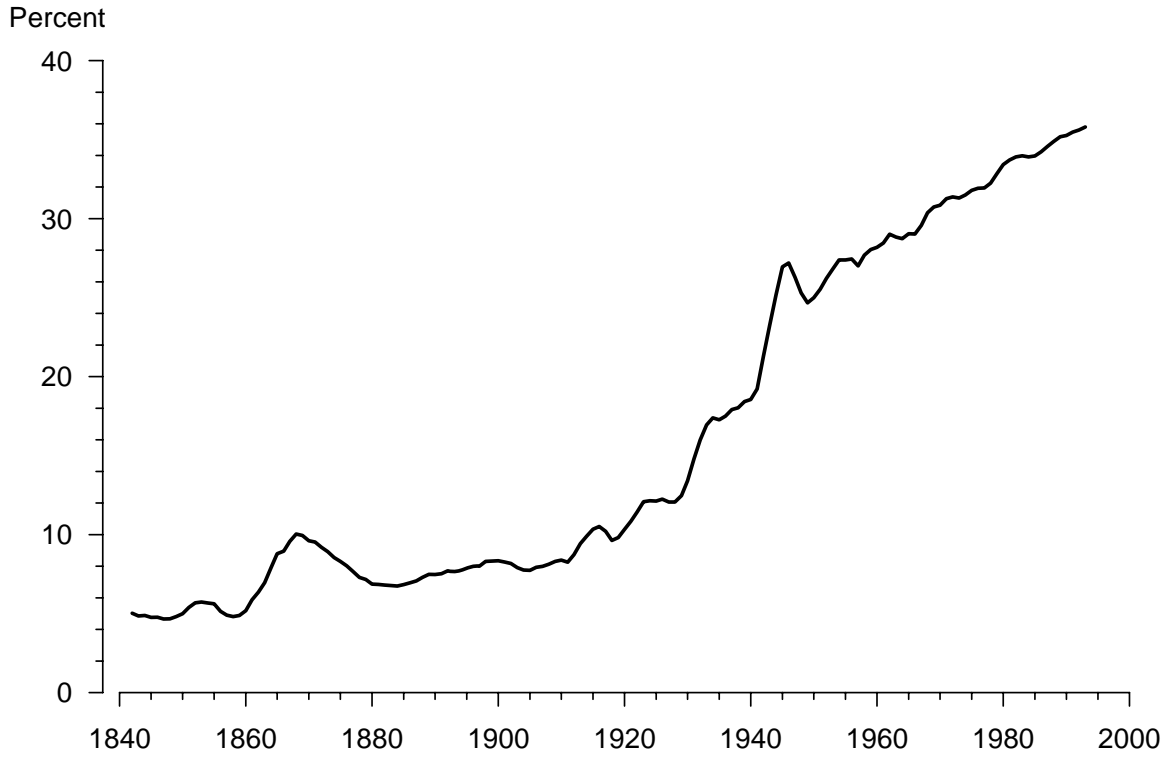


See Figure 3.

For long-term display purposes, values are shown as five-year moving averages.



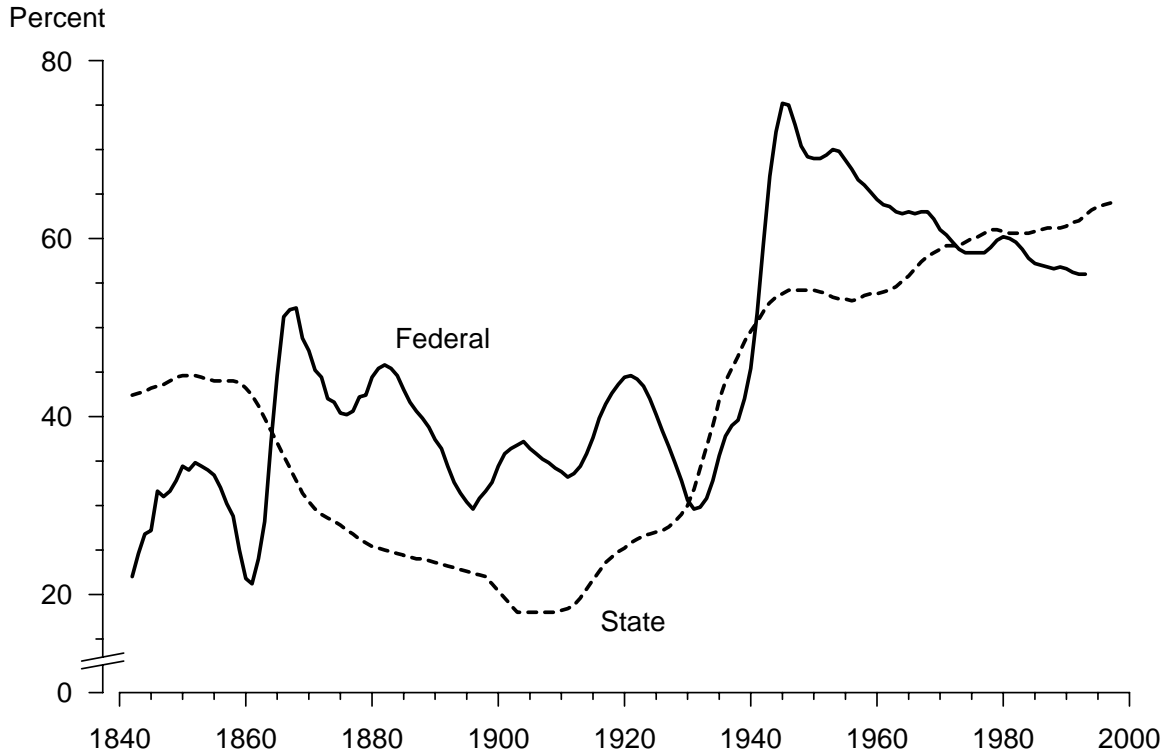
**Figure 5. Total government revenue as a percentage of gross domestic product: 1840-1995**



Revenue: see Figure 3. Gross domestic product: Johnston and Williamson 2002.

For long-term display purposes, values are shown as five-year moving averages.

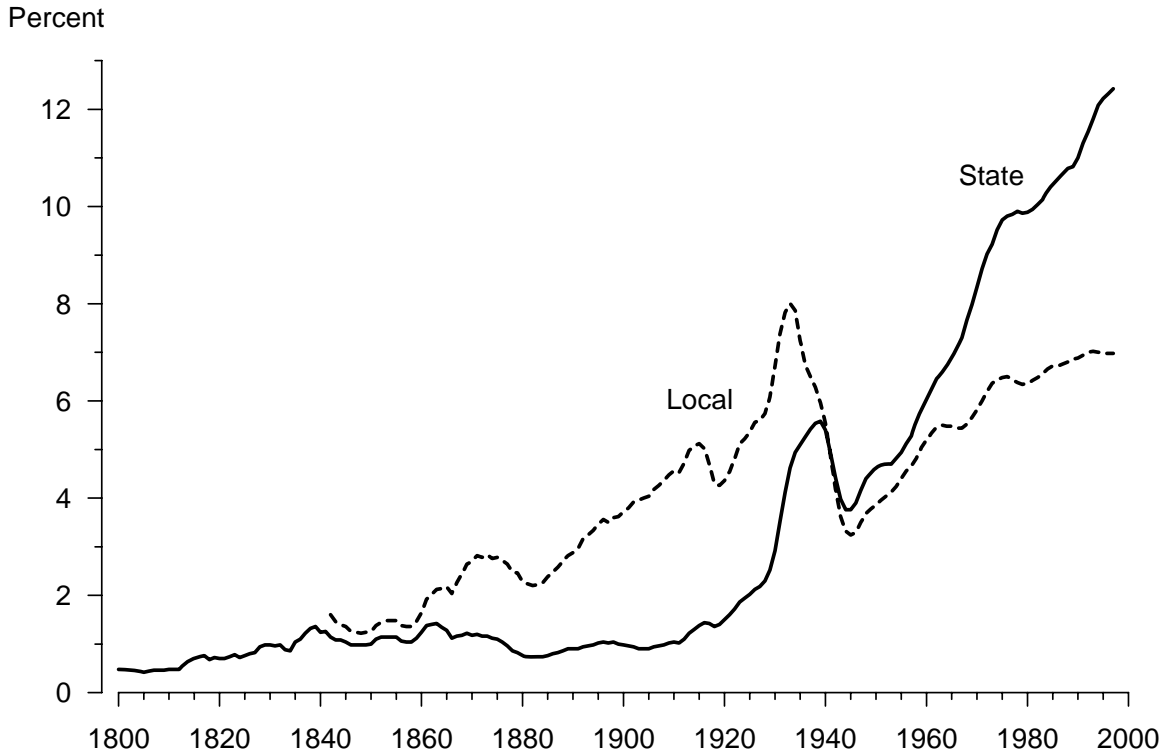
**Figure 6. Fiscal centralization: federal revenue as a percentage of total government revenue, and state revenue as a percentage of state-local revenue: 1840-1997**



See Figure 3 for the nineteenth century. State revenue: Dataset HSUS, series Ea348.

For long-term display purposes, values are shown as five-year moving averages.

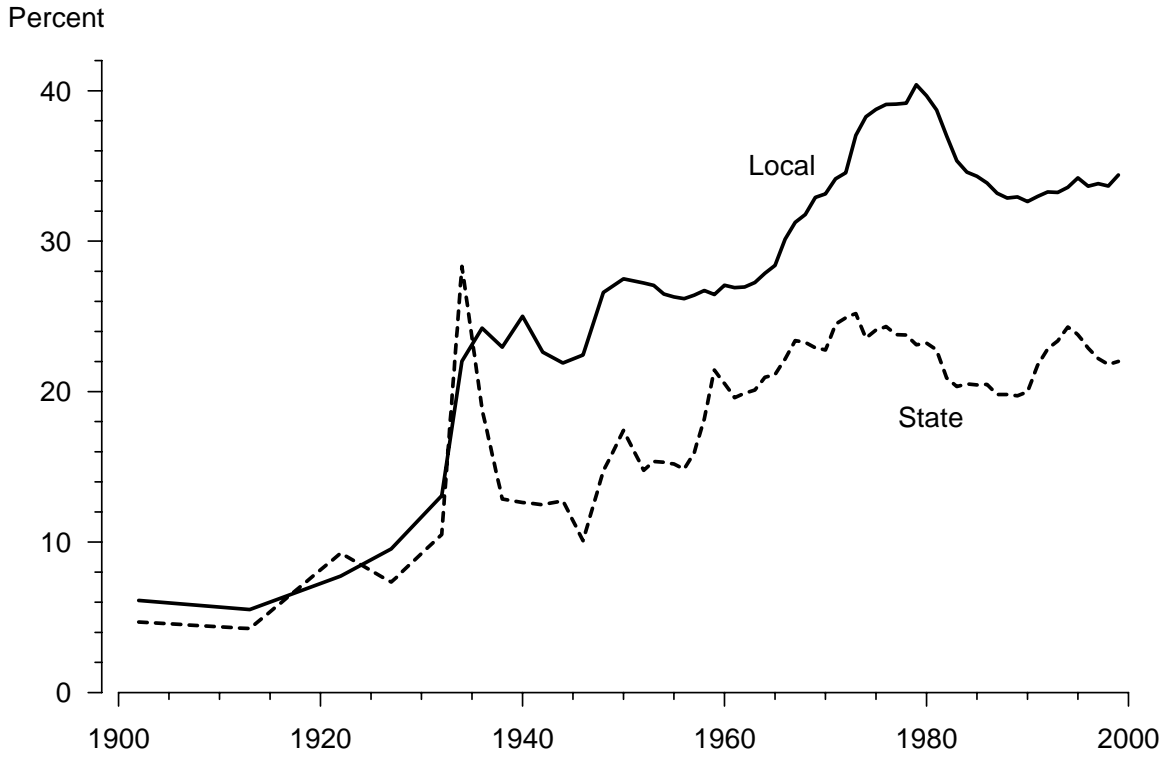
**Figure 7. State and local government revenue as a percentage of gross domestic product: 1800-1999**



See Figure 3 for nineteenth century. State revenue: through 1995, Dataset HSUS, series Ea348; thereafter, Dataset COG. Local revenue: through 1995, Dataset HSUS, series Ea489; thereafter, Dataset COG. Gross domestic product: Johnston and Williamson 2002.

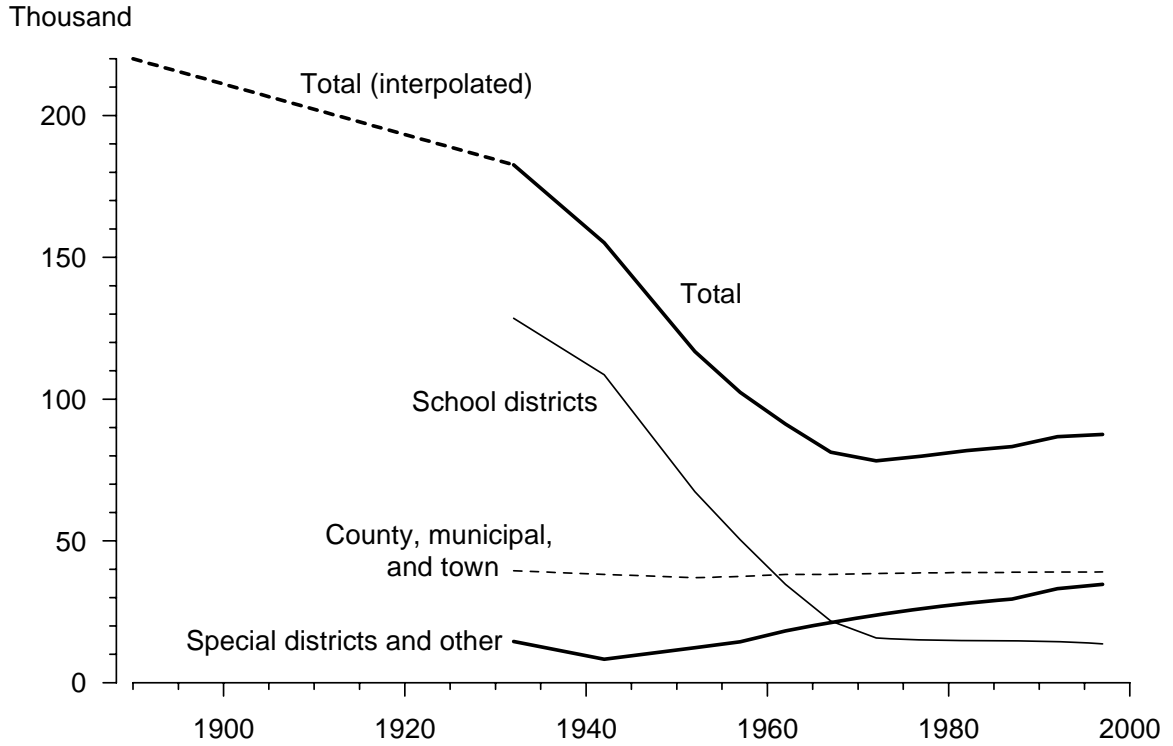
For long-term display purposes, values are shown as five-year moving averages.

**Figure 8. Intergovernmental revenue as a percentage of total revenue for state and local government: 1902-1999**



Through 1995, Dataset HSUS, series Ea348, Ea350, Ea489, and Ea491; thereafter, Dataset COG.

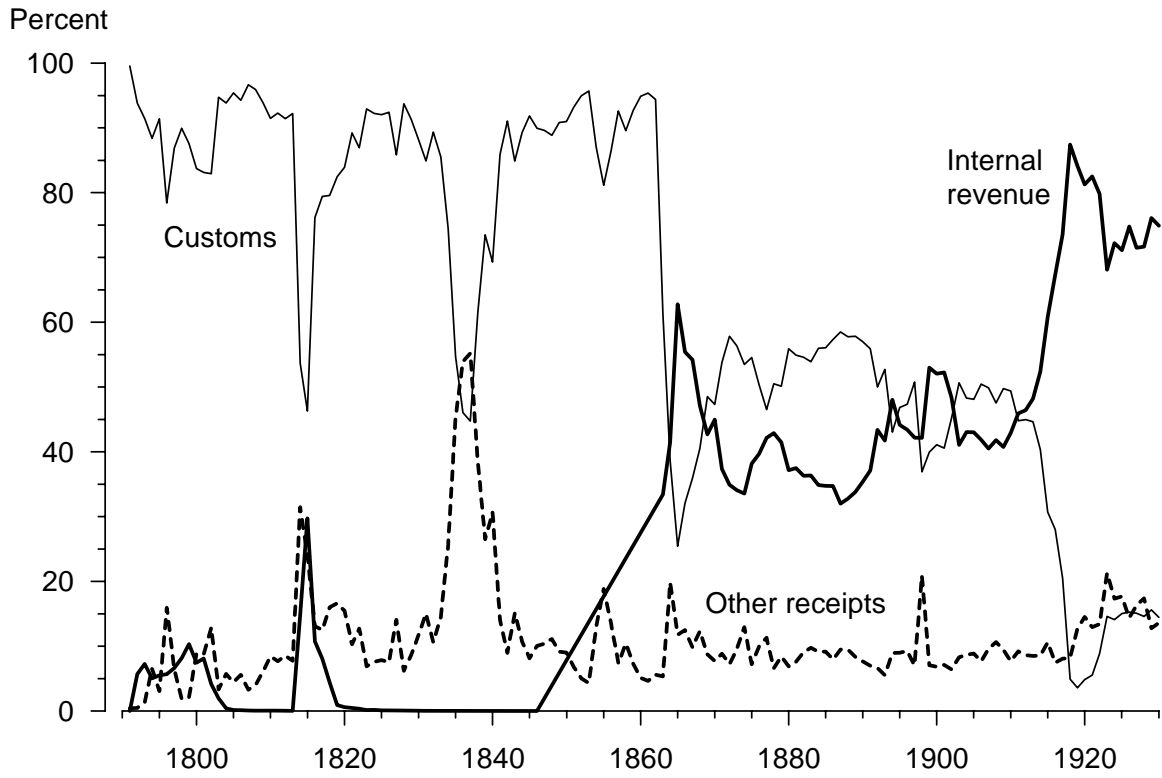
**Figure 9. Governments, by level: 1942-1992**



1890: U. S. Bureau of the Census 1890, Pt. I, p. xi. 1932: U. S. Bureau of the Census 1935, p. v. 1942-1992: Dataset HSUS, table Ea1-9. 1997: U. S. Bureau of the Census 1999, Table 3, p. 3.

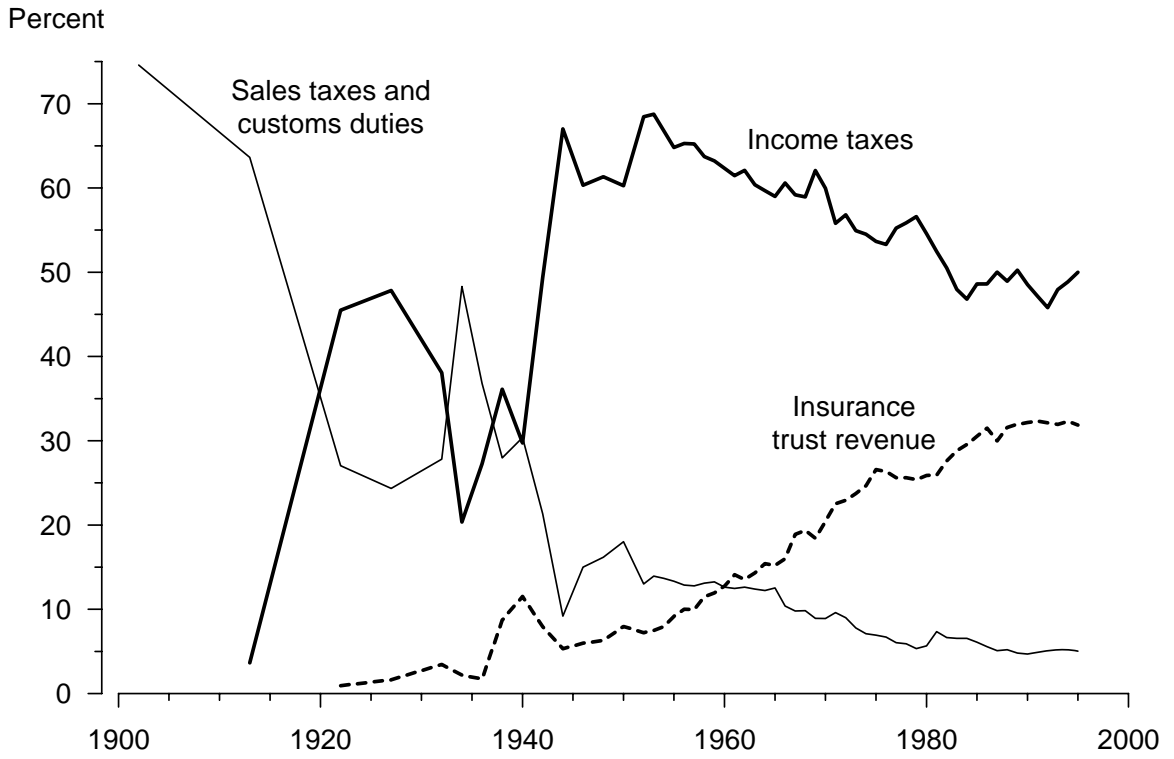
The total includes the negligible number of governments at the state level (44 to 50) and national level (1). The estimated value for 1890 is based on the "Letter of Transmittal" in the source, which mentions "nearly 200,000 school districts" and "29,601 county and municipal divisions within states." The next observation in the graph is for 1932, so all of the values between 1890 and 1932 are interpolated.

**Figure 10. Federal revenue, by source: 1791-1930**



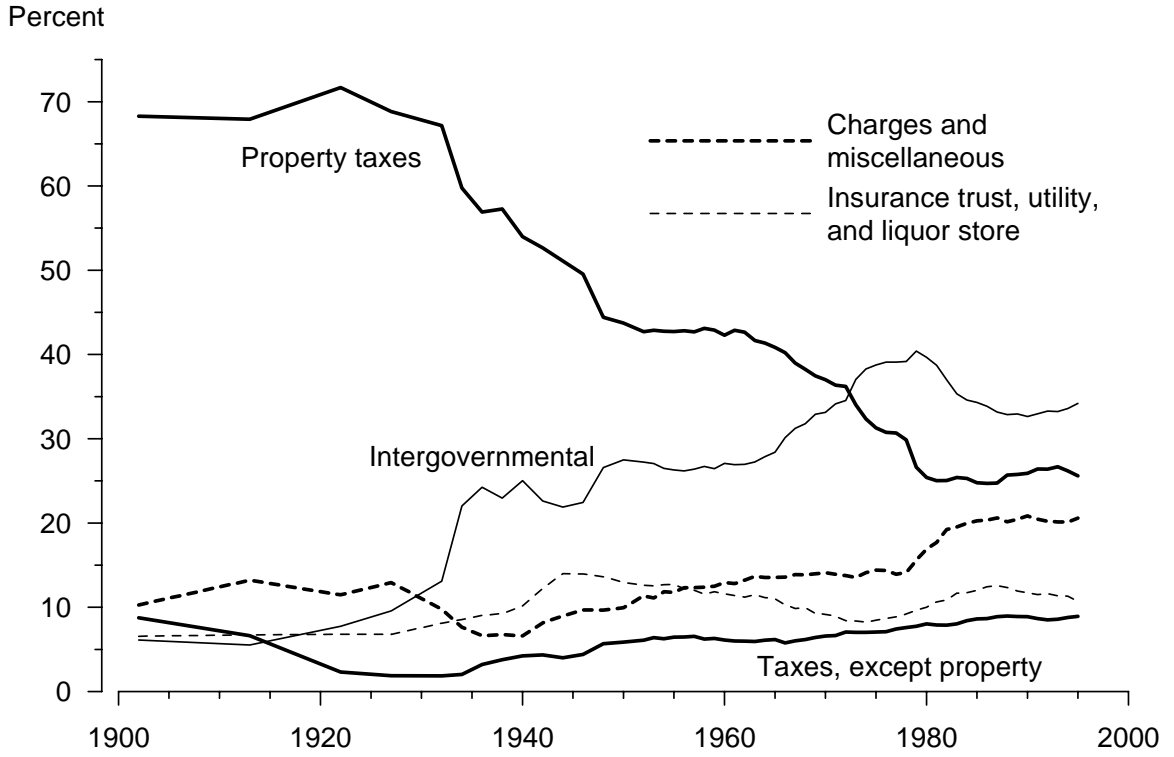
Dataset HSUS, series Ea588 to Ea591.

**Figure 11. Federal revenue, by source: 1902-1995**



Dataset HSUS, series Ea132, Ea138, Ea145, and Ea152.

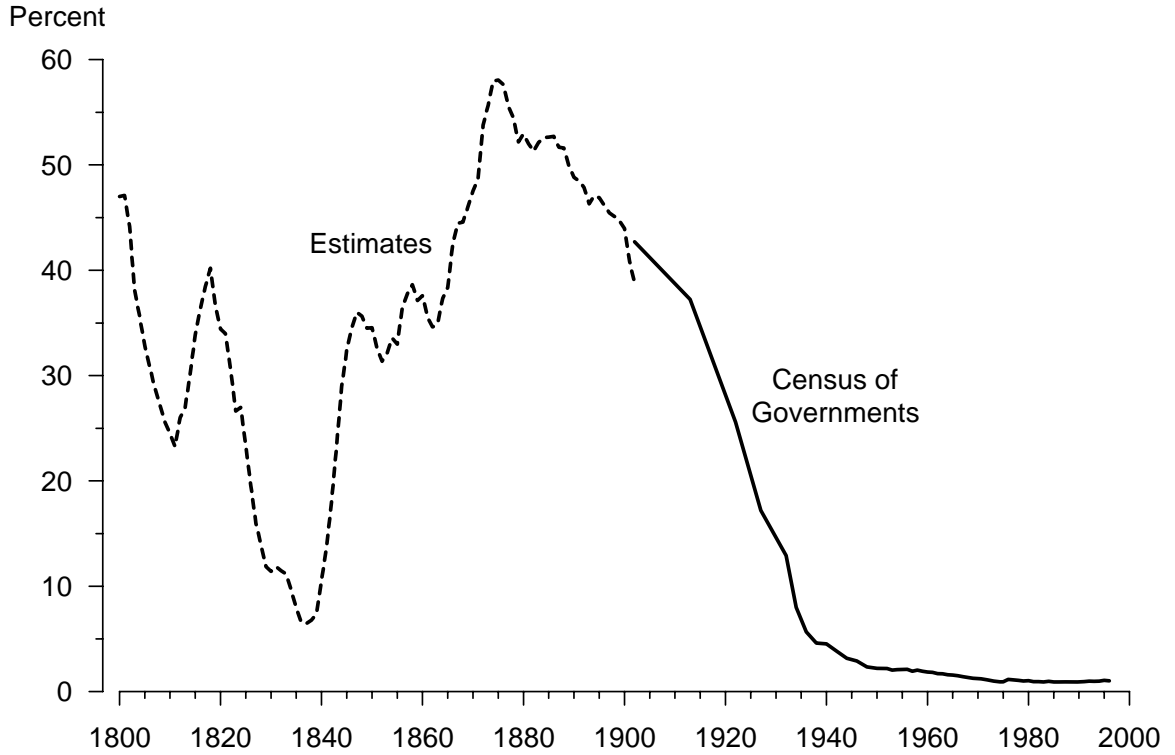
Figure 12. Local revenue, by source: 1902-1995



Dataset HSUS, table Ea489-518.



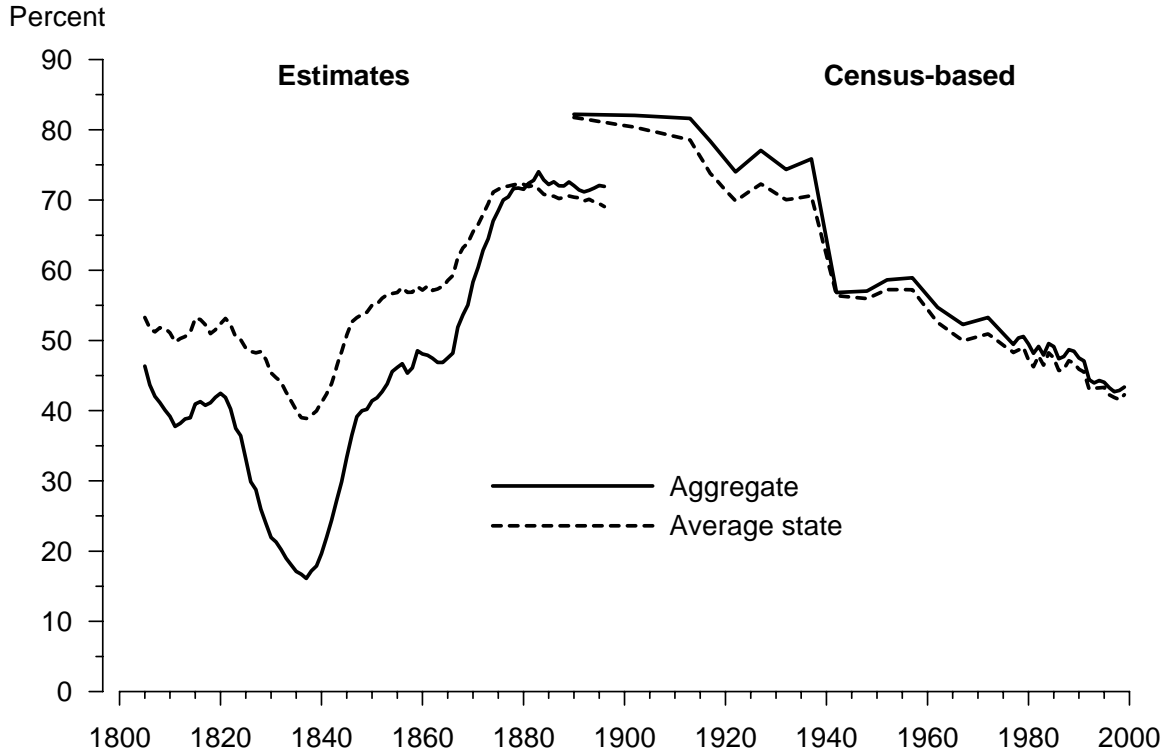
**Figure 13. Property taxes as a percentage of state revenue: 1800-1996**



Through 1901, Dataset SLWH19; thereafter, Dataset HSUS, series Ea348 and Ea356.

As discussed in Chapter 2, the series graphed here tends to understate the relative role of the property tax in state budgets during the nineteenth century.

**Figure 14. State tax reliance — taxes as a percentage of revenue: 1800-1900**



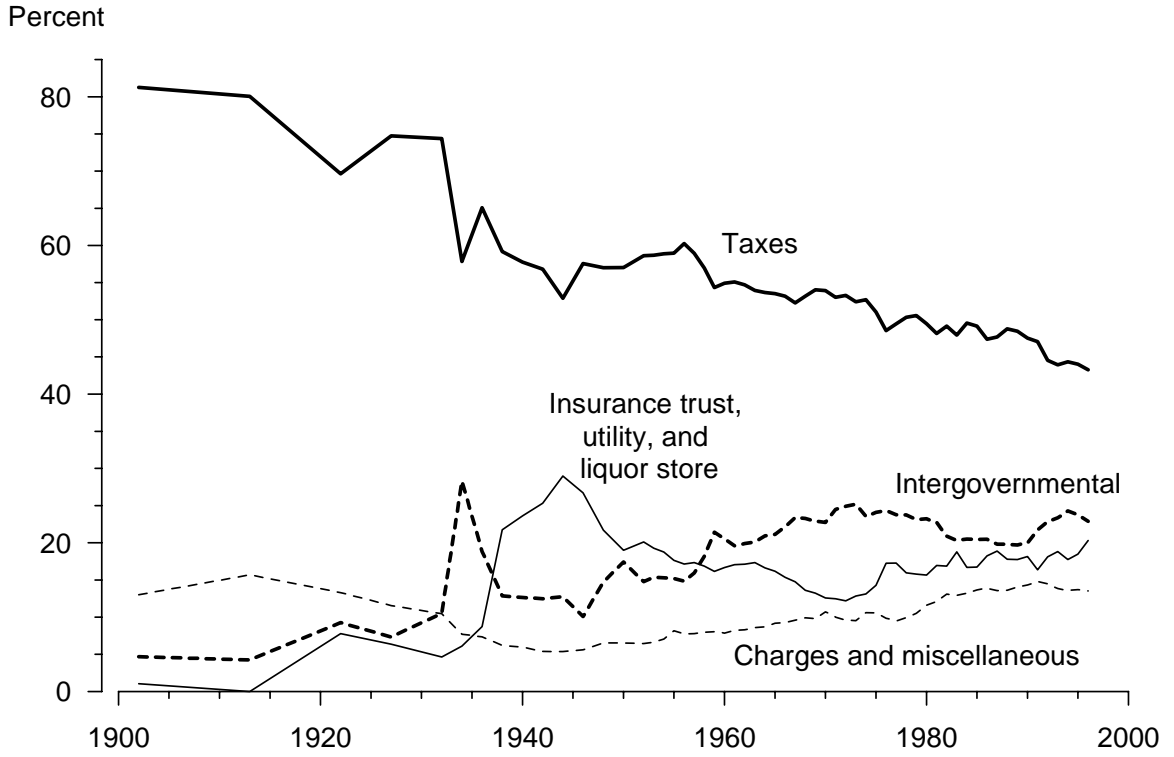
1800-1900: Dataset SLW19. 1890-1999: Dataset MH20, described in Chapter 2.

The "aggregate" series represents tax reliance for state government as a sector: the sum of tax revenue for all states, expressed as a percentage of the sum of all state revenue. The other series is tax reliance for the "average state": tax reliance is computed for each state; then the mean of those values is taken.

For long-term display purposes, the estimated values from the nineteenth-century dataset are shown as ten-year moving averages.

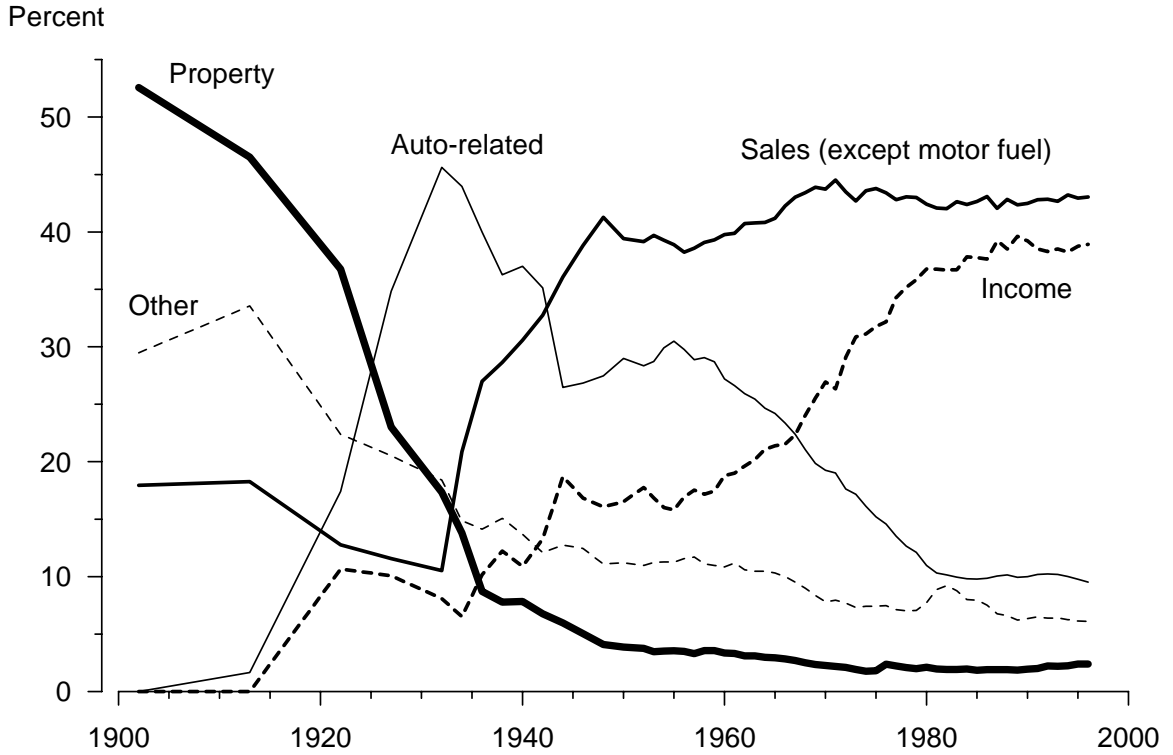
As discussed in Chapter 2 the nineteenth-century data are likely to understate the relative importance of tax revenue in state budgets — a point reinforced by comparing those values against the Census-based series that begin in 1890.

Figure 15. State revenue, by source: 1902-1996



Dataset HSUS, table Ea348-384.

**Figure 16. State tax revenue, by source: 1902-1996**

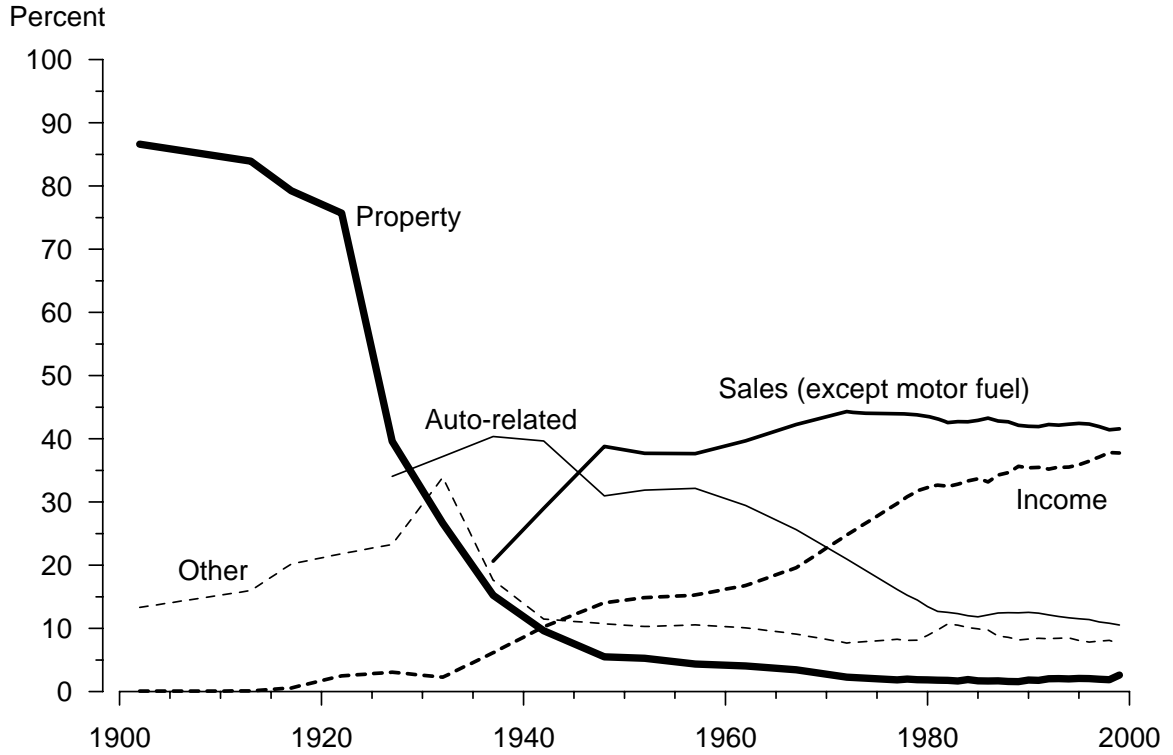


Dataset HSUS, table Ea348-384.

Also see Figure 17.

Note that the percentages are expressed relative to total tax revenue, not total revenue.

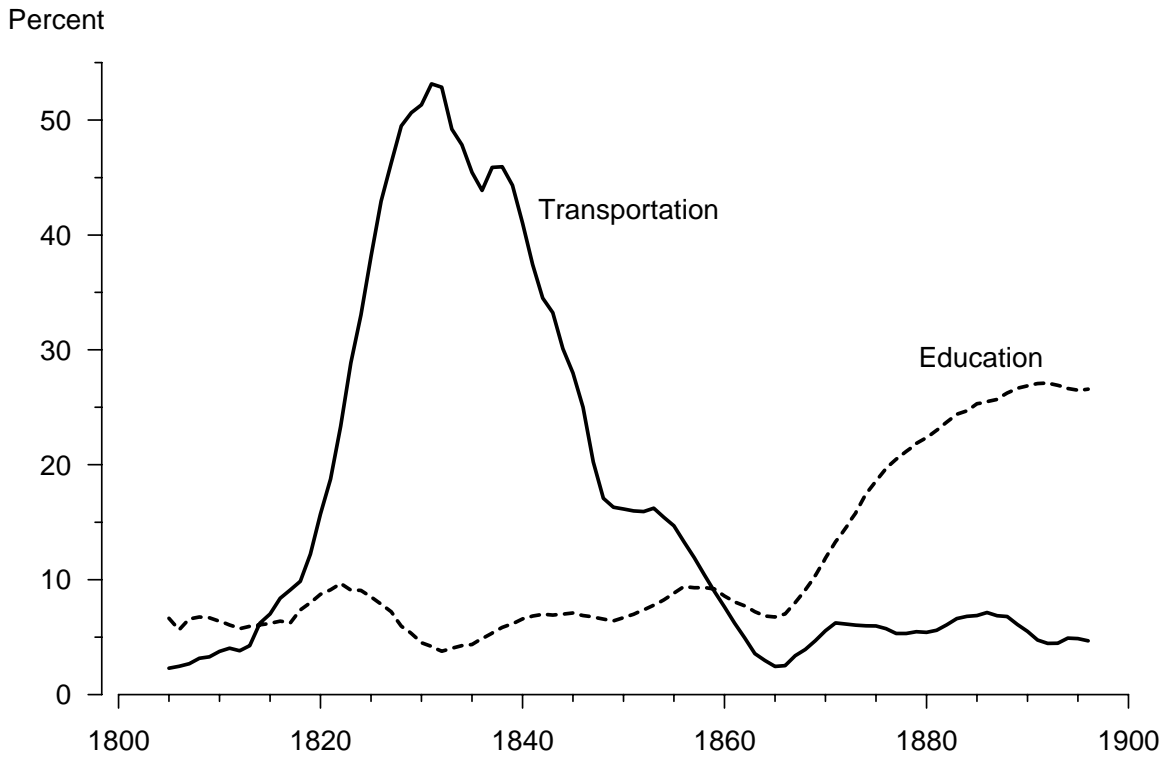
**Figure 17. Average state tax reliance: 1902-1999**



This figure differs from Figure 16 in two respects: the underlying data come from Dataset MH20, described in Chapter 2; and the values here, rather than treating the entire state government sector as an aggregate, represent tax reliance for the "average state" — in other words, tax reliance is computed for each state and then the mean of those values is taken.

Also see Tables 22 and 48.

**Figure 18. Transportation and education as a percentage of state expenditures: 1800-1900**

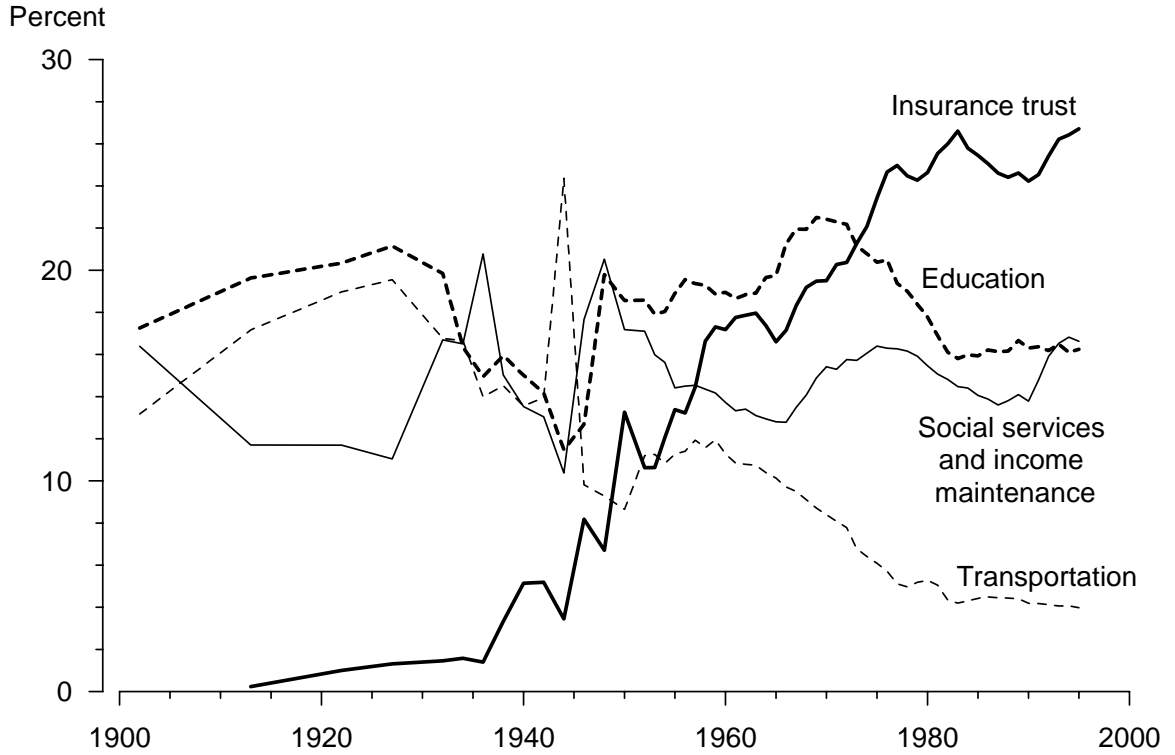


Dataset SLW19.

For long-term display purposes, values are shown as ten-year moving averages.

These data generally agree with the summary measures provided in Holt 1977, Table 17, p. 50. The main difference is that Holt's series peak at somewhat higher levels: transportation reaches about 60 percent in the late 1830s, and education moves slightly above 30 percent by the end of the century. As discussed in Chapter 2, the series graphed here probably understate the relative role of transportation and education in state budgets.

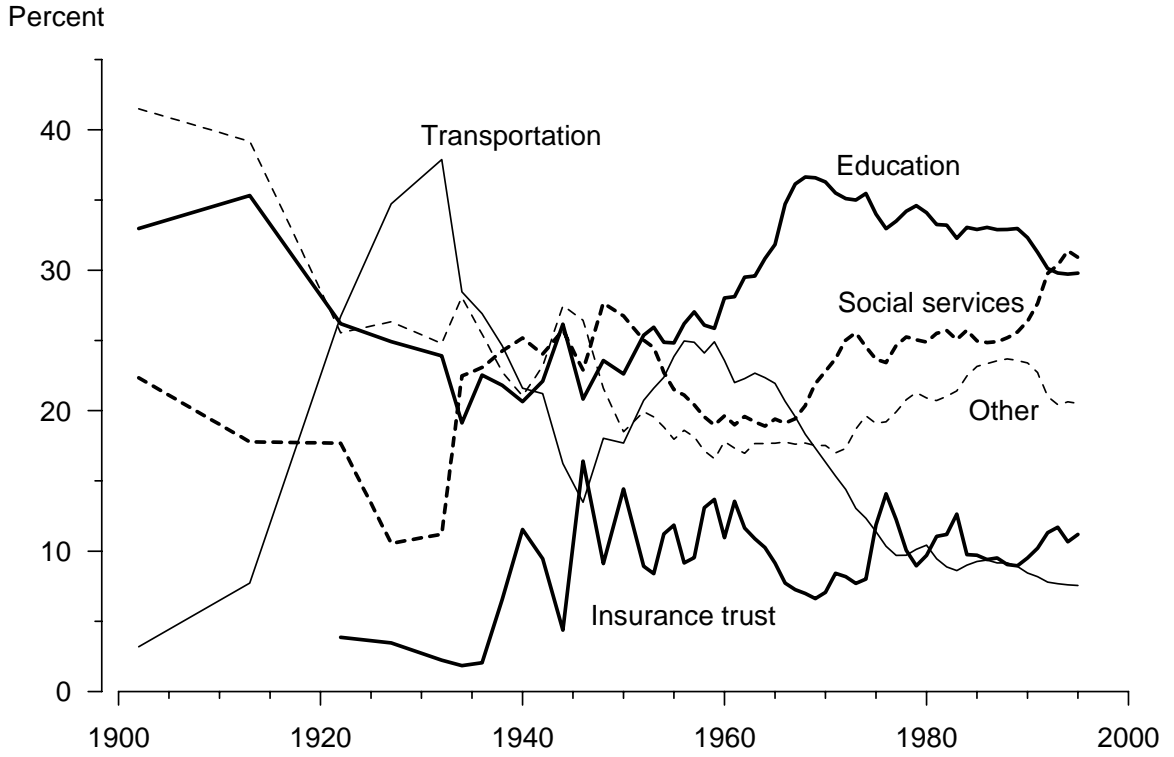
**Figure 19. Total government non-defense expenditure, by function: 1902-1995**



Dataset HSUS, table Ea61-124.

This graph focuses on four broad categories, which together accounted for just under half of non-defense expenditure at the beginning of the twentieth century, and just under two-thirds at the end.

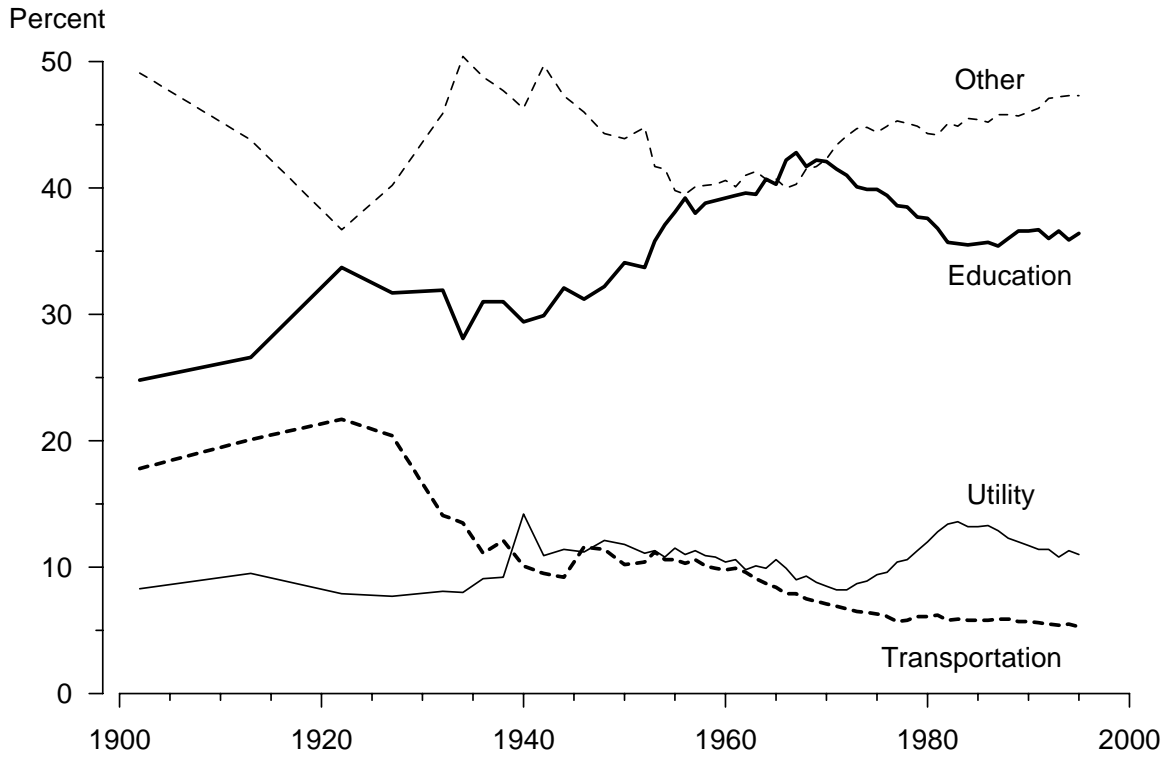
Figure 20. State expenditure, by function: 1902-1995



Dataset HSUS, tables Ea396-456 and Ea457-488.

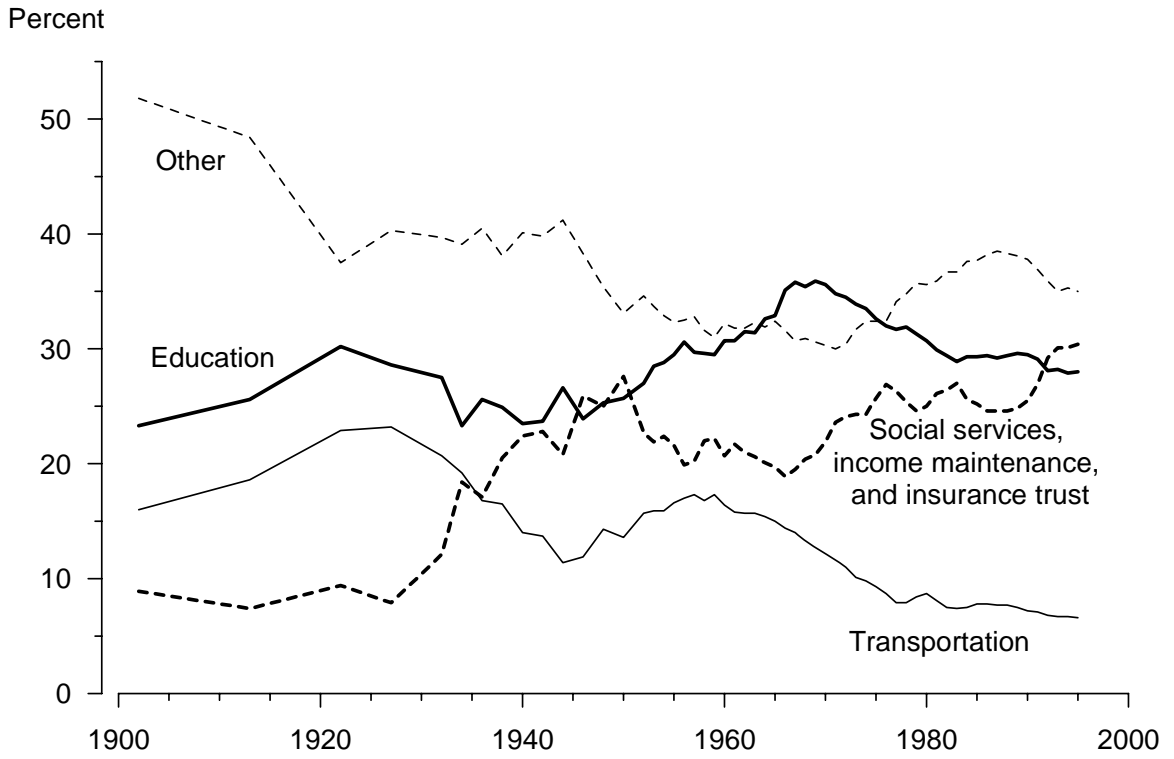


**Figure 21. Local expenditure, by function: 1902-1995**



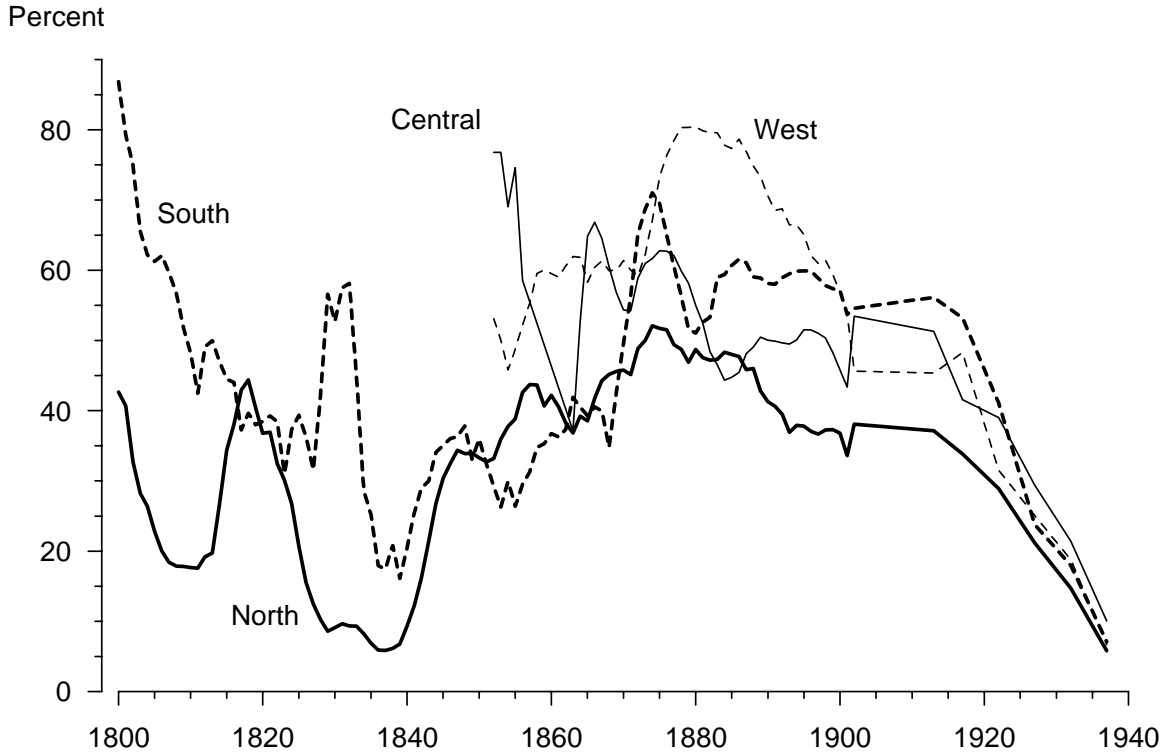
Dataset HSUS, table Ea530-583.

**Figure 22. State-local expenditure, by function: 1902-1995**



Dataset HSUS, table Ea287-347.

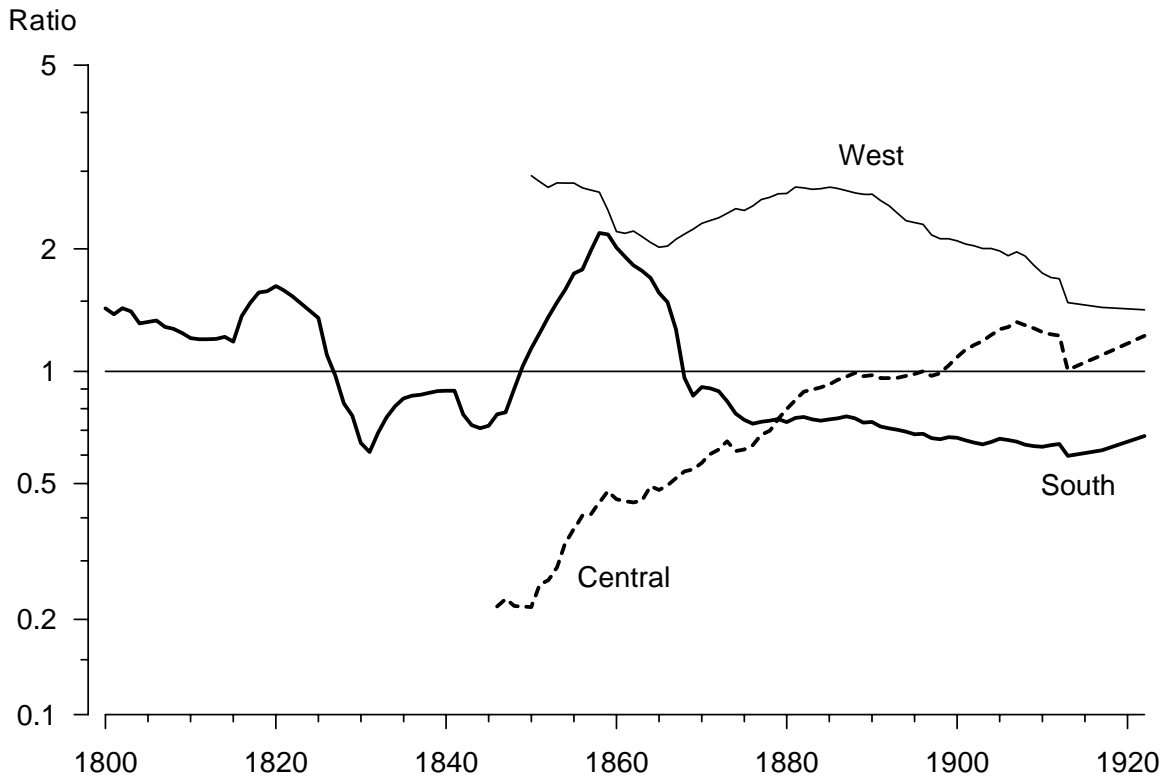
**Figure 23. Property taxes as a percentage of state revenue, by region: 1800-1937**



For 1800-1900, based on Dataset SLWH19; thereafter, on Dataset MH20.

For display purposes, five-year averages (centered on the year given) are used to reduce volatility for the nineteenth-century data. These series should be viewed as rough approximations, for a variety of reasons. Through 1820 or so, the data coverage is low (see Figure 2). There are numerous indications in the raw data files suggesting errors in the series; in this presentation, efforts were made to exclude obvious errors, but no doubt some remain. Many of these errors, of course, wash out in the various aggregation and averaging processes. The more fundamental reason to view the series with some caution is simply that they represent a finer level of classification than do total expenditures and revenues, and thus they rely on a series of revenue classification decisions made both by historical actors and by social scientists.

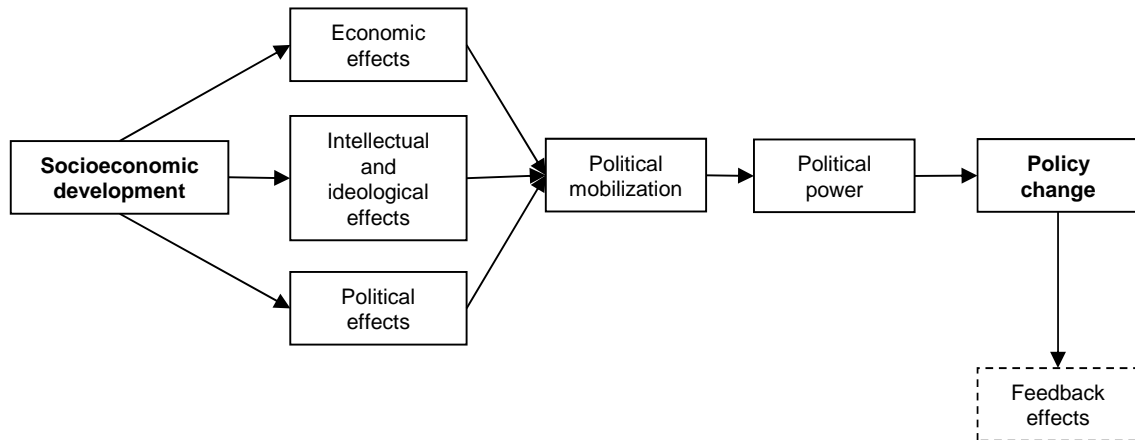
**Figure 24. Per capita state expenditures — South, Central, and West as a proportion of North: 1800-1922**



Data: see Figure 23. State-level population: see Figure 1.

For display purposes, ten-year averages (centered on the year given) are used to reduce volatility for 1800-1912. Beginning in 1913 the underlying data are available for 1913, 1917, and 1922, so the values are used directly rather than computing ten-year averages. Also see the documentation for Figure 23.

**Figure 25. Schematic model of fiscal change**



**Note:** the figure continues on 1 subsequent page.

**1. Socioeconomic development.**

**2a. Economic effects.**

- New problems or opportunities.
- Changed incentives or cost-benefit structures.

**2b. Political effects.**

- New problems or opportunities.
- Changed incentives or cost-benefit structures.
- Changes in the raw political strength (size) of groups or sectors.

**2c. Intellectual and ideological effects.**

- Evolution of general views on society, politics, government.
- New ideas and preferences regarding policy.
- Modified views on political strategy.

**3. Political mobilization by various groups or sectors.**

- Changes in the intensity of mobilization.
- Modified political strategies.

**4. Realized political influence and power.**

**5. Policy change.**

- Law: creation, elimination, or modification of rules.
- Institutions: creation or elimination of institutions.
- Fiscal: changes to government revenue and expenditure structure.

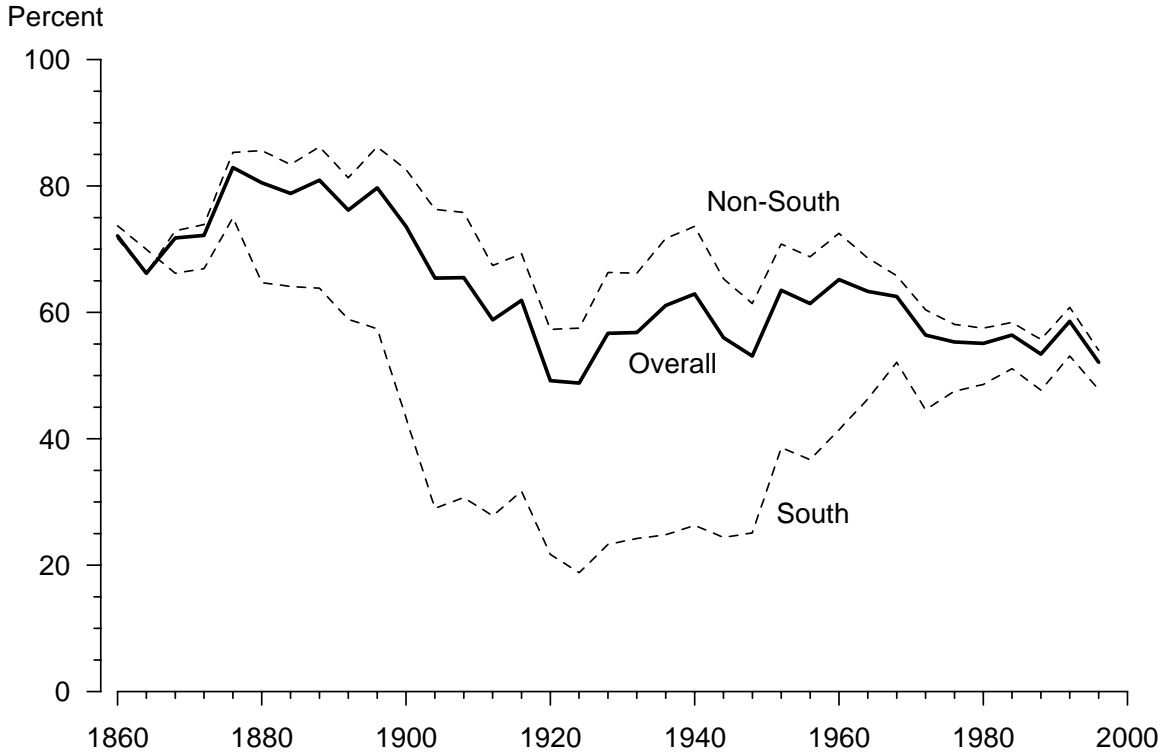
**Feedback effects.**

- New policy can exert influence at every point in the sequence.
- Rules and institutions can affect economic and political costs and incentives, which can then have an impact on such things as political mobilization or the course of subsequent socioeconomic development.

- Policy consequences, both intended and unexpected, can affect general intellectual views, ideology, and specific policy preferences.
- Policy changes can spur political counter-mobilization.
- Legal and institutional changes can affect the efficacy of political mobilization by various groups or sectors and thus their realized political influence.

For related work and discussion see Dye 1966, 3-5; Easton 1965, Chapter 2; Robert L. Savage 1976; and Munns 1975.

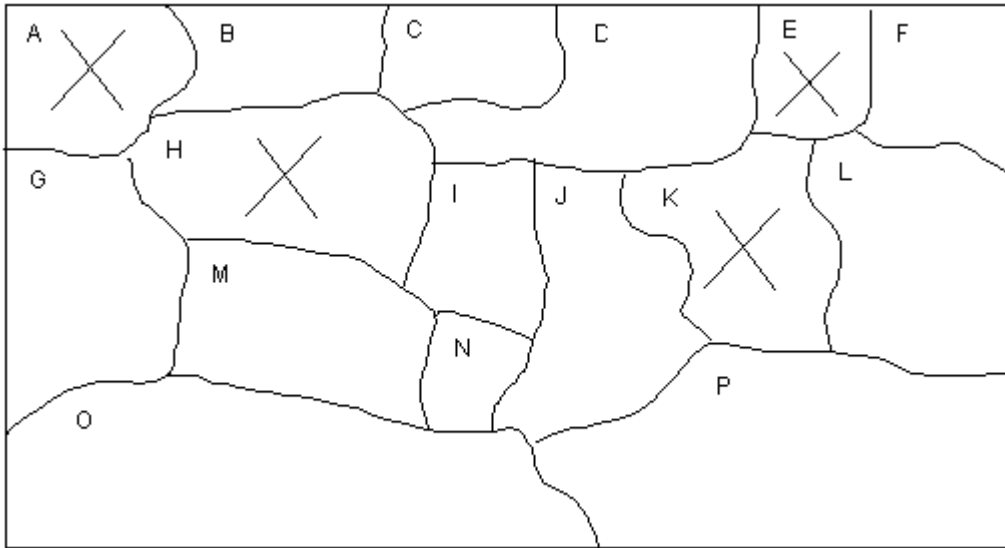
**Figure 26. Turnout in presidential elections: 1860-1996**



Dataset HSUS, series Eb114 to Eb116.

Turnout is the number of votes as a percentage of the population eligible to vote (also referred to as the voting age population). Estimates for both the numerator and especially the denominator can vary depending on the methods used. See John P. McIver's discussion in Dataset HSUS, along with the underlying data source for this data, Rusk 2001.

**Figure 27. Hypothetical example of a policy at 25-percent diffusion**



States A, E, H, and K have adopted the policy.



**Appendix 3.**  
**Tables**

**Table 1. Example records to illustrate integrated fiscal coding in the Sylla-Legler-Wallis dataset**

<b>State</b>	<b>Year</b>	<b>Fiscal code</b>	<b>Value</b>	<b>Metadata for fiscal code</b>
NY	1875	31	3478421	Education expenditures
NY	1875	310	175375	- generic category
NY	1875	311	3303046	- schools

This table provides a few example records from Dataset SLW19 (the first four columns), along with the corresponding fiscal category metadata (the last column).

**Table 2. Example of a source table's header structure: 1902**

---

Revenue receipts
Total
General
Total
Taxes
General property
Special property, business, and other [ <b>detail from state table</b> ]
Total
Special property
Total
Inheritance
Other [ <b>calculated as residual</b> ]
Business
Other
Total
Income
Other [ <b>calculated as residual</b> ]
Unspecified (local only) [ <b>created so detail would sum to total</b> ]
Poll
Liquor licenses
Other licenses and permits
Fines and forfeits
Subventions and grants
Donations and gifts
All other
Commercial
Total
Interest
Special assessments
Departmental receipts from fees and charges
Privileges
Industrial income
All other

---

The data for the categories shown here are from Dataset SLW20, except for the breakdown of the "Special property, business, and other" category, as noted. Also see discussion in Chapter 2.

**Table 3. Example records to illustrate a fact table for fiscal data**

<b>fc_tab</b>	<b>fc</b>	<b>year</b>	<b>gov</b>	<b>po</b>	<b>fval</b>
2	1	1902	S	AL	2882199
2	1	1902	S	AR	1436417
2	1	1902	S	AZ	564486

fc\_tab Fiscal table ID, as discussed in Chapter 2.

fc Fiscal category ID.

year Year.

gov Government level: S (state) or L (local).

po State.

fval A fiscal value, in dollars.

**Table 4. Typical fiscal classification for the modern COG era: 1950s to present**

**Note:** the table continues on 1 subsequent page.

---

**Revenue**

- General
  - Taxes
    - Property
    - Sales and gross receipts
      - General
      - Selective [**partial**]
        - Alcoholic beverage
        - Motor fuels
        - Tobacco
    - License [**partial**]
      - Motor vehicle
      - Vehicle
      - Operator
      - Alcoholic beverage
      - Corporation
      - Hunting and fishing
    - Income [**partial**]
      - Individual
      - Corporation
    - Death and gift
    - Severance
  - Intergovernmental
    - General charges [**partial**]
      - Education
      - Hospitals
      - Highways
      - Parks and recreation
      - Sewerage
      - Solid waste management
    - Miscellaneous [**partial**]
      - Special assessments
      - Sale of property
      - Fines and forfeits
      - Net lottery revenue
  - Liquor store
  - Utility
    - Water supply
    - Electric power
    - Gas supply
    - Transit systems
  - Insurance trust
    - Employee retirement
    - Unemployment compensation
    - Workers' compensation
    - Other

**Expenditure [by function]**

General [**partial**]

- Education
  - Elementary and secondary
  - Higher
- Libraries
- Highways
- Parking facilities
- Air transportation
- Water transport and terminals
- Transit subsidies
- Sanitation
  - Sewerage
  - Solid waste management
- Police protection
- Corrections
- Fire protection
- Protective inspection and regulation
- Judicial and legal
- Public welfare
- Health and hospitals
- Veterans' services
- Housing and community development
- Natural resources
  - Agriculture
  - Fish and game
  - Forestry
- Parks and recreation
- Employment security administration
- Financial administration
- Legislative activities
- Interest on general debt

Liquor store

Utilities

[Subcategories same as those for revenue.]

Insurance trust

[Subcategories same as those for revenue.]

**Expenditure [by character and object]**

Total

Salaries and wages

Intergovernmental

Direct

Current operation

Capital outlay

Assistance and subsidies

Interest on debt

Insurance trust

---

The **partial** label indicates that some subcategories commonly provided in COG sources are omitted here.

**Table 5. Coding structure for the harmonized fiscal dataset**

**Note:** the table continues on 2 subsequent pages.

Full code	Code, by level				Label
	1	2	3	4	
10000	1				Revenue
10100		01			Property taxes
10110			1		General
10120			2		Special, selective, or corporate
10130			3		n.e.c.
10200		02			Sales taxes
10210			1		General
10220			2		Selective, special
10221				1	Alcoholic beverage
10222				2	Motor fuels
10223				3	n.e.c.
10230			3		n.e.c.
10300		03			Income taxes
10310			1		Individual
10320			2		Corporation
10330			3		n.e.c.
10400		04			License taxes
10410			1		Alcoholic beverage
10420			2		Motor vehicle or operator
10430			3		n.e.c.
10500		05			Estate or gift taxes
10600		06			Severance taxes
10700		07			Poll taxes
10800		08			Taxes, n.e.c.
10900		09			Special assessments
11000		10			Intergovernmental revenue
11010			1		From federal
11020			2		From state
11030			3		From local
11040			4		n.e.c.
11100		11			Liquor store revenue
11200		12			Utility revenue
11300		13			Insurance trust revenue
11310			1		Employee retirement
11320			2		Unemployment compensation
11330			3		Workers' compensation
11340			4		n.e.c.
11400		14			Lottery revenue
11500		15			n.e.c.

Full code	Code, by level				Label
	1	2	3	4	
20000	2				Expenditure
20100		01			Education and libraries
20110			1		Schools
20111				1	Elementary and secondary
20112				2	Higher
20113				3	n.e.c.
20120			2		Libraries
20130			3		n.e.c.
20200		02			Transportation
20210			1		Roads, parking, and related
20220			2		n.e.c.
20300		03			Public safety and protection of property
20310			1		Police or military
20320			2		Corrections and penal institutions
20330			3		Judicial and legal
20340			4		Fire protection
20350			5		n.e.c.
20400		04			Public welfare, social services, and charities
20500		05			Health and sanitation
20510			1		Public health and hospitals
20511				1	Health
20512				2	Hospitals and related institutions
20513				3	n.e.c.
20520			2		Sanitation
20521				1	Sewerage
20522				2	n.e.c.
20530			3		n.e.c.
20600		06			Charities, hospitals, and corrections, n.e.c.
20700		07			Veterans' services
20800		08			Housing and community development
20900		09			Natural resources and agriculture
21000		10			Parks and recreation
21100		11			Liquor store
21200		12			Utilities
21300		13			Insurance trust
21310			1		Employee retirement
21320			2		Unemployment compensation
21330			3		Workers' compensation
21340			4		n.e.c.
21400		14			Intergovernmental expenditure, n.e.c.
21500		15			n.e.c.



Full code	Code, by level				Label
	1	2	3	4	
90000	9				Dropped categories
90100		01			Duplicative totals
90200		02			Intergovernmental detail
90300		03			Non-revenue, non-expenditure
90400		04			Not integrated
90500		05			n.e.c.

**Table 6. Fiscal regimes along multiple dimensions: 1800-2000**

**Note:** the table continues on 2 subsequent pages.

<b>Government size</b>	<b>1800s 1810s 1820s 1830s 1840s 1850s 1860s 1870s 1880s 1890s 1900s 1910s 1920s 1930s 1940s 1950s 1960s 1970s 1980s 1990s</b>																		
<b>Total government (in real per capita terms)</b>	Slow growth, with the suggestion of fiscal restraint for 1870-1890 and a modest increase in the growth rate beginning in the 1890s.												Rapid growth -- so rapid that the usefulness of the per capita measure is called into question.						
<b>Total government (relative to GDP)</b>	Slow growth.												Rapid growth.						
<b>State government (relative to GDP)</b>	Moderate growth -- experimentation with state activism.				Pronounced fiscal restraint: state sector barely kept pace with economic growth.								Rapid growth.						
<b>Local government (relative to GDP)</b>	Quantitative record is murky, but anything more than slow-to-moderate growth seems unlikely.						Moderate-to-rapid growth, but with hints of fiscal restraint during the two decades following the Civil War.						Not quite so rapid growth, especially relative to the other levels of government. Also, the growth was propelled to a significant degree by intergovernmental revenue.						
<b>Federalism</b>	<b>1800s 1810s 1820s 1830s 1840s 1850s 1860s 1870s 1880s 1890s 1900s 1910s 1920s 1930s 1940s 1950s 1960s 1970s 1980s 1990s</b>																		
<b>Centralization: federal relative to total government</b>	No long-term trend toward federal centralization, other than a burst of federal fiscal activity associated with the Civil War.												Radical centralizing effect of the Great Depression, World War II, and the immediate Cold War, followed by gradual decentralization thereafter.						
<b>Centralization: state relative to state-local government</b>	Possibly an increasing fiscal role for states, although the quantitative record is sketchy.				Fiscal localization: local governments, especially in urban areas, become the center of sub-national fiscal activity.								Fiscal centralization, almost as rapidly as the centralization that occurred at the federal level. The trend continued during the postwar period, but at a slower pace.						
<b>Dependence of sub-national levels on intergovernmental revenue</b>	High degree of revenue independence, with the possible exception of a few land-sale booms that transferred funds from the federal government to states.												Modest increases in fiscal dependence.		Intergovernmental revenue became an important source for state and especially local government.				

Revenue structure	1800s	1810s	1820s	1830s	1840s	1850s	1860s	1870s	1880s	1890s	1900s	1910s	1920s	1930s	1940s	1950s	1960s	1970s	1980s	1990s		
<b>Federal</b>	Sales taxation: customs revenue.				Sales taxation: an even mix of customs and internal revenue.				Transition: income and sales taxes (less customs).		Income taxation, broadly defined to include payroll taxes. Also a relative shift away from taxing corporate income.											
<b>State</b>	Colonial holdovers, with a shift to business and activity taxes and "asset income" in economically more developed states.			General property tax.				Partial shift from general to special property taxes.		Abandonment of general property tax, replaced by a diverse mix of auto-related taxes (especially 1920-1940), sales taxes (beginning heavily in 1930s), and income taxes (steady growth over entire century).												
<b>Local</b>	Property taxation, along with colonial holdovers.			General property tax.																Major, but not total, shift away from property taxation and toward non-tax sources: intergovernmental revenue, plus locally raised charges and miscellaneous revenue.		
Expenditure structure	1800s	1810s	1820s	1830s	1840s	1850s	1860s	1870s	1880s	1890s	1900s	1910s	1920s	1930s	1940s	1950s	1960s	1970s	1980s	1990s		
<b>Federal</b>	Budget mostly consumed by military expenditures and the costs of prior wars (interest and, in the latter part of the century, veterans benefits).								Main categories: defense, postal, and veterans. Public welfare and related programs rise during 1930s.				Defense expenditures thoroughly dominate the budget.			Two major categories, roughly equal: defense and insurance trust.						
<b>State</b>	Growing importance of internal improvements (transportation).			Education and carceral institutions assume prominence.						Major increase in spending on roads.		Shift away from transportation. Main categories become education and social services and income maintenance, broadly defined.										
<b>Local</b>	Weak quantitative record, but the likely areas of focus are education and, increasingly so toward the end of the century, urban infrastructure.													Transportation and infrastructure spending fall in importance; rising role of social services and income maintenance, broadly defined.								

**Table 7. Personal property and slaves as a percentage of total property, by region: 1860**

<b>Region</b>	<b>As a percentage of total property</b>		<b>Slaves as a percentage of personal property</b>
	<b>Personal property</b>	<b>Slaves</b>	
Northeast	34	0	0
Northw est	30	0	0
Upper South	51	27	54
Low er South	64	45	70
<b>United States</b>	<b>43</b>	<b>16</b>	<b>38</b>

Einhorn 2001, p. 889-90.

**Northeast:** Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, and Vermont. **Northwest:** Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Ohio, and Wisconsin; plus California and Oregon. **Upper South:** Arkansas, Delaware, Kentucky, Maryland, Missouri, North Carolina, Tennessee, and Virginia. **Lower South:** Alabama, Florida, Georgia, Louisiana, Mississippi, South Carolina, and Texas.

**Table 8. Regional classifications, arranged by year of statehood**

Year of statehood	Census Divisions (B)									Sharkansky (C)									Nineteenth-century sectional groupings												
																			9-region (D)					4-region (E)							
	1	2	3	4	5	6	7	8	9	1	2	3	4	5	6	7	8	9	1	2	3	4	5	6	7	8	9	0	1	2	3
1787 Delaware					5					2											3								1		
1787 New Jersey		2									2										2								1		
1787 Pennsylvania		2									2										2								1		
1788 New York		2									2										2								1		
1788 Maryland					5						2										3								1		
1788 Massachusetts	1									1											1								1		
1788 Connecticut	1									1											1								1		
1788 New Hampshire	1									1											1								1		
1788 South Carolina					5						3										4								2		
1788 Georgia					5						3										4								2		
1788 Virginia					5						3										4								2		
1789 North Carolina					5						3										4								2		
1790 Rhode Island	1									1											1								1		
1791 Vermont	1									1											1								1		
1792 Kentucky					6						3										3								2		
1796 Tennessee					6						3										4								2		
1803 Ohio		3									4										5								1		
1812 Louisiana					7						3										4								2		
1816 Indiana		3									4										5								1		
1817 Mississippi					6						3										4								2		
1818 Illinois		3									4										5								1		
1819 Alabama					6						3										4								2		
1820 Maine	1									1											1								1		
1821 Missouri				4								5									3								2		
1836 Arkansas					7						3										4								2		
1837 Michigan		3									4										5								1		
1845 Texas					7							6									4								2		
1845 Florida					5						3										4								2		
1846 Iowa			4									5									6								3		
1848 Wisconsin		3									4										5								1		
1850 California								9													8					9			4		
1858 Minnesota		4									5										6								3		
1859 Oregon								9													8					9			4		
1861 Kansas			4									5									6								3		
1863 West Virginia					5						3										3								2		
1864 Nevada							8														8					9			4		
1867 Nebraska			4									5									6								3		
1876 Colorado							8														7					8			3		
1889 Montana							8														7					8			3		
1889 South Dakota				4								5									6								3		
1889 North Dakota				4								5									6								3		
1889 Washington								9													8					9			4		
1890 Idaho							8														7					8			3		
1890 Wyoming							8														7					8			3		
1896 Utah							8														7					8			3		
1907 Oklahoma						7															6					3			2		
1912 New Mexico							8														6						7		2		
1912 Arizona							8														6						7		2		
1959 Hawaii								9													9						0		4		
1959 Alaska								9													9						0		4		

Also see Appendix 5 and Table 47.

**Table 9. Average general property tax reliance for state government, by region: 1890-1922**

<b>Region</b>	<b>1890</b>	<b>1902</b>	<b>1913</b>	<b>1917</b>	<b>1922</b>
New England	42.7	34.6	34.8	39.4	33.4
Middle Atlantic	41.9	25.9	27.8	22.0	26.6
Great Lakes	78.7	63.3	67.6	62.8	53.8
Southeast	73.9	73.8	67.4	70.2	56.3
Plains	90.0	81.0	74.5	66.3	60.7
Southw est	95.7	87.4	83.4	79.1	63.5
Mountain	96.2	74.7	76.9	74.5	71.9
Far West	95.5	88.6	60.1	63.8	51.3
<b>Overall</b>	<b>74.3</b>	<b>66.3</b>	<b>62.0</b>	<b>60.7</b>	<b>52.5</b>

**Association between region and general property tax reliance**

Association ( <i>eta</i> )	0.79	0.82	0.63	0.65	0.56
Variance explained (%)	62	67	39	43	31

**Association between general property tax reliance and manufacturing employment**

Association ( <i>r</i> )	-0.65	-0.73	-0.56	-0.55	-0.537
Variance explained (%)	42	53	31	30	29

General property tax reliance is general property tax revenue as a percentage of total tax revenue. The figures in the table are the mean of the tax reliance values for the states in each region. Data are from Dataset MH20. The regional breakdown is based on Sharkansky (see Table 8).

The measure of statistical association between general property tax reliance and region is *eta* from a standard analysis of variance (ANOVA). This measure is analogous to a correlation.

The measure of statistical association between general property tax reliance and the percentage of employment in manufacturing is a correlation (*r*).

If the value of *eta* or *r* is squared and expressed as a percentage, it indicates the percentage of the variability in the dependent variable (general property tax reliance) that is associated with variability in the independent variable (region or manufacturing employment).

**Table 10. Average state percentage of employment in manufacturing, by region: 1890-1922**

<b>Region</b>	<b>1889</b>	<b>1899</b>	<b>1909</b>	<b>1923</b>
New England	14.7	14.8	16.0	14.8
Middle Atlantic	10.0	10.2	10.8	10.4
Great Lakes	6.6	6.6	8.1	10.0
Southeast	3.3	3.3	4.3	4.0
Plains	2.2	1.9	2.5	2.3
Southw est	1.2	1.4	1.8	1.5
Mountain	2.5	2.6	2.8	2.6
Far West	4.0	4.0	4.5	5.5
<b>Overall</b>	<b>5.6</b>	<b>5.4</b>	<b>6.2</b>	<b>6.2</b>

**Association between region and manufacturing employment**

Association (eta)	0.92	0.91	0.91	0.92
Variance explained (%)	85	83	83	84

Data are from Dataset HOFF.

See Table 9 for notes on region and the measure of statistical association.



**Table 11. Correlations between general property tax reliance and government size: 1890-1927**

Year	General property tax reliance	Government size			
		Relative to state personal income		Relative to state population	
		State	State-local	State	State-local
1890	State	0.24	0.21	0.17	0.10
	State-local		0.22		0.09
1902	State	0.09	<b>-0.25</b>	-0.13	<b>-0.30</b>
	State-local		0.21		0.19
1913	State	0.20	0.08	-0.05	-0.18
	State-local		<b>0.27</b>		0.09
1917	State	<b>0.26</b>	-	-0.02	-
	State-local		-		-
1922	State	<b>0.44</b>	<b>0.51</b>	0.21	0.15
	State-local		<b>0.52</b>		<b>0.26</b>
1927	State	0.17	-	<b>0.28</b>	-
	State-local		-		-

Fiscal data: Dataset MH20.

State-level population data: see Figure 1.

State-level income data: based on simple interpolation of income data from the following sources. For 1880, 1900, 1920, 1940, 1960, and 1980: data were supplied directly by the author of Mitchener and McLean 1999. For 1929 and 1931: data are from Roy G. Blakey 1932, p. 529, Table 28.

General property tax reliance is general property tax revenue as a percentage of total tax revenue — either for state government or combined state-local government.

Government size is measured as total revenue as a proportion of the state's income or population.

Correlations with absolute value of 0.24 or larger are displayed in bold.

**Table 12. Valuation of real and personal property: 1850-1900**

Year	True value (billion dollars)	Assessed value (billion dollars)			Assessed value as a percentage of true value	Personal property as a percentage of total assessed value
		Total	Real estate and improvements	Personal property		
1850	7.1	6.0	3.9	2.1	85	35
1860	16.2	12.1	7.0	5.1	75	42
1870	30.1	14.2	9.9	4.3	47	30
1880	43.6	17.1	13.0	4.1	39	24
1890	65.0	25.5	19.0	6.5	39	26
1900	88.5	31.3	23.4	7.9	35	25

For 1850-1890: U. S. Bureau of the Census 1890, Part II. "Valuation and Taxation", p. 9 and 59-60. For 2000: U. S. Bureau of the Census 1907, p. 40.

In this table, personal property is intangible wealth plus various other forms of non-realty falling under the purview of ad valorem taxation. Also see the discussion in Chapter 6 for further clarifications.

**Table 13. Turnout in presidential elections — average for each two-decade period: 1860-1996**

<b>Period</b>	<b>Percent</b>
1880-1896	79.2
1900-1916	65.0
1920-1936	54.5
1940-1956	59.4
1960-1976	60.5
1980-1996	55.1

Averages of the values from Dataset HSUS, series Eb114.

**Table 14. Inheritance tax usage and reliance: 1902-1927**

Year	Number of states using the tax	Average tax reliance			Number of states with tax reliance of 10 or higher	Maximum tax reliance
		All states	User states	Aggregate		
1902	27	1.8	3.2	4.5	2	15.2
1913	35	4.3	5.9	8.8	8	26.1
1917	41	5.2	6.1	9.5	7	25.6
1922	45	4.9	5.2	7.7	7	18.2
1927	45	4.7	5.0	7.8	7	23.1

Dataset MH20, described in Chapter 2.

The "aggregate" series represents tax reliance for state government as a sector: the sum of inheritance tax revenue for all states, expressed as a percentage of the sum of all state taxes. The other tax reliance series — one for all states and the other only for states using inheritance taxes — represents tax reliance for the "average state": tax reliance is computed for each state; then the average (mean) of these values is taken.

**Table 15. Early income tax adopters: year of adoption and income tax usage in 1927**

Early income tax adopter	Southern	Year income tax adopted			State income taxes: 1918-1927			
		Any	Individual	Corporate	State income tax reliance, 1927	Relative to federal income taxes	Relative to state property taxes	Relative to state taxes
Wisconsin		1911	1911	1911	23.9	45.5	60.3	28.2
Mississippi	yes	1912	1912	1921	16.6	15.7	10.5	6.5
Connecticut		1915	-	1915	0.0	20.1	111.1	12.5
Oklahoma	yes	1915	1915	-	1.9	6.3	13.6	3.6
Virginia	yes	1915	1916	1915	11.6	11.4	30.6	9.4
Massachusetts		1916	1916	1919	1.3	17.1	0.0	0.0
Delaware		1917	1917	-	20.4	17.0	178.0	18.4
Missouri	yes	1917	1917	1917	12.9	7.6	60.4	15.6
Montana		1917	-	1917	0.0	22.9	15.2	7.6
New York		1917	1919	1917	14.2	14.9	114.7	26.7
North Dakota		1919	1919	1919	8.5	40.3	9.6	5.9
North Carolina	yes	1921	1921	1921	23.5	29.8	0.0	25.1
South Carolina	yes	1922	1922	1922	12.3	55.0	50.0	15.2
New Hampshire		1923	1923	-	0.0	29.2	0.0	0.0
Tennessee	yes	1923	-	1923	-	-	-	-
<b>Average state</b>								
- South	yes	-	-	-	11.2	18.0	-	10.8
- Non-South		-	-	-	8.5	25.9	-	12.4

Year of tax adoption: Advisory Commission on Intergovernmental Relations 1976-1977, Table 66, p. 99; with supplemental and confirming information from Alzada Comstock 1920; Harley L. Lutz and Wright 1920; Bigham 1929; and Roy G. Blakey and Johnson 1942. Income taxes adopted after 1927 are not listed in the table.

Tax reliance: Dataset MH20, described in Chapter 2.

State income tax revenues for the 1918-1927 period: Bigham 1929, Table III, p. 232. The data in these columns represent: (1) state income tax receipts as a percentage of federal income tax receipts from the state; (2) state income tax receipts as a percentage of state general property tax receipts; and (3) the percentage of state income tax receipts available to state government (as opposed to income taxes allocated to local governments).

**Table 16. Early income tax adopters — income and property tax reliance, by region: 1927**

	Tax reliance and p-values		States	Test for significant difference
	Property	Income		
<b>Early adopter</b>				
- No	39.6	-	33	
- Yes	23.9	-	15	
	<b>0.006</b>			<b>T-test</b>
<b>Region</b>				
- Non-South	26.6	8.5	8	
- South	20.8	11.2	7	
	<b>0.492</b>	<b>0.574</b>		<b>T-test</b>
<b>Region</b>				
- North	-	3.7	16	
- South	-	4.6	17	
- Central	-	0.8	11	
- West	-	0.0	4	
		<b>0.368</b>		<b>ANOVA</b>

See Table 15 for data source.

Regional classification: Sectional, 4-region (E); see Table 47.

**Table 17. New York state tax revenue, by source — COG and state-government data: 1927**

<b>Tax</b>	<b>COG</b>	<b>NY state</b>
General property	22.7	22.7
Motor vehicle or operator license	23.5	24.0
Inheritance (estate or gift)	24.6	24.5
Individual income	26.3	26.3
Other taxes	88.4	87.2
<b>Total</b>	<b>185.3</b>	<b>184.6</b>

**Breakdown of other taxes: COG**

- Special, selective, or corporate property	15.6
- Other license	47.6
- Other	25.2
<b>Total</b>	<b>88.4</b>

**Breakdown of other taxes: NY state**

- Corporate net income: financial corporations	9.6
- Corporate net income: other corporations	29.8
- Stock transfer	15.6
- Capital stock, general	4.6
- Capital stock, public utility	1.9
- Gross earnings, public utility	6.9
- Insurance companies	8.5
- Mortgage	6.4
- Organization and foreign license	3.2
- Other licenses	0.8
<b>Total</b>	<b>87.2</b>

Values are in million dollars.

Census of governments (COG) data: Dataset MH20, described in Chapter 2.

New York state government data: Haig 1932a, Table 1, p. 68-69.

**Table 18. Size of state government, by income tax usage: 1927**

<b>Income tax user</b>	<b>State revenue</b>		
	<b>Number of states</b>	<b>as a percentage of state income</b>	<b>State revenue per capita</b>
No	37	2.8	18.0
Yes	11	3.2	16.7
<b>T-test significance</b>	-	0.294	0.628

Income tax usage: states with income tax reliance of 1 percent or more, based on Dataset MH20, described in Chapter 2.

State-level population: see Figure 1.

State-level income data: see Table 11.



**Table 19. State government revenue as a percentage of gross domestic product: 1800-1990**

Decade	Change during decade		
	Value at start of decade	Percentage points	Percent increase
1800s	0.48	0.00	0
1810s	0.48	0.22	46
1820s	0.70	0.28	40
1830s	0.98	0.26	27
1840s	1.24	-0.24	-19
1850s	1.00	0.24	24
1860s	1.24	-0.06	-5
1870s	1.18	-0.42	-36
1880s	0.76	0.14	18
1890s	0.90	0.08	9
1900s	0.98	0.06	6
1910s	1.04	0.46	44
1920s	1.50	1.42	95
1930s	2.92	2.48	85
1940s	5.40	-0.78	-14
1950s	4.62	1.42	31
1960s	6.04	2.30	38
1970s	8.34	1.54	18
1980s	9.88	1.12	11
1990s	11.00	-	-

This table is based on the data values underlying Figure 7.

**Table 20. State and local highway revenue: 1914-1940**

Year	Highway revenues (million dollars)		State percentage of total
	State	Local	
1914	75	-	-
1915	90	-	-
1916	87	-	-
1917	116	-	-
1918	139	-	-
1919	221	-	-
1920	358	-	-
1921	426	994	30.0
1922	536	1,107	32.6
1923	507	1,041	32.8
1924	615	1,263	32.7
1925	764	1,377	35.7
1926	803	1,505	34.8
1927	855	1,688	33.6
1928	971	1,677	36.7
1929	1,177	1,650	41.6
1930	1,257	1,728	42.1
1931	1,344	1,545	46.5
1932	1,072	1,195	47.3
1933	1,064	945	53.0
1934	1,238	897	58.0
1935	1,152	902	56.1
1936	1,384	954	59.2
1937	1,430	1,131	55.8
1938	1,377	1,078	56.1
1939	1,385	1,102	55.7
1940	1,537	1,133	57.6

Based on Dataset HSUS, series Df243-272.

**Table 21. State highway revenue, by source: 1914-1940**

Year	Motor fuel taxes	Motor vehicle and carrier taxes	Debt issues	Federal funds	Other
1914	0.0	16.4	15.5	0.0	68.1
1915	0.0	20.2	28.1	0.0	51.7
1916	0.0	29.7	5.5	0.0	64.8
1917	0.0	32.3	18.6	0.0	49.1
1918	0.0	37.0	5.0	1.5	56.5
1919	0.5	29.2	15.5	5.3	49.5
1920	0.4	28.4	10.7	17.3	43.3
1921	1.0	28.0	27.0	18.3	25.8
1922	1.3	25.5	26.7	14.9	31.5
1923	4.8	35.1	17.4	14.5	28.2
1924	11.0	34.9	16.5	15.1	22.5
1925	18.2	32.4	18.5	12.2	18.7
1926	22.9	33.6	17.2	9.9	16.5
1927	29.6	33.1	10.6	9.4	17.3
1928	30.4	31.3	13.8	8.4	16.1
1929	35.7	27.7	16.2	6.6	13.7
1930	38.1	26.4	17.7	7.5	10.3
1931	38.4	23.8	13.0	16.3	8.6
1932	43.3	25.9	9.8	12.9	8.1
1933	43.0	22.5	7.5	21.0	5.9
1934	38.2	21.0	8.3	28.7	3.8
1935	43.4	22.7	10.2	19.0	4.7
1936	40.3	21.2	9.7	25.3	3.5
1937	44.8	24.5	7.8	18.5	4.4
1938	46.5	24.2	10.6	14.4	4.3
1939	48.6	23.6	8.7	14.7	4.3
1940	46.5	23.6	13.2	12.8	4.0

All values are percentages and are based on data from Dataset HSUS, series Df243-272.

**Table 22. Average state tax reliance: 1902-1997**

**Note:** the table continues on 2 subsequent pages.

Data: see Figure 17.

Also see Table 48 for information on each state.

Tax categories	1902	1913	1917	1922	1927	1932	1937	1942	1948	1952	1957	1962	1967	1972	1977	1982	1987	1992	1997
Revenue																			
Property taxes								10	6	5	4	4	3	2	2	2	2	2	2
General	66	62	61	53	35	27	12												
Special, selective, or corporate	20	22	19	23	5		3												
n.e.c.																			
Sales taxes																			
General							13	14	19	21	22	24	26	29	31	31	32	32	32
Selective, special																			
Alcoholic beverage											4	3	3	2	2	1	1	1	1
Motor fuels				17			29	28	22	22	22	20	17	14	11	8	8	8	8
n.e.c.								15	19	17	16	12	12	12	11	10	9	10	9
n.e.c.							8												
Income taxes	0	0	1	2	3	2													
Individual							3	5	7	8	10	12	14	19	22	25	27	30	31
Corporation							3	5	7	6	5	5	6	6	8	7	7	6	6
n.e.c.																			
License taxes						60													
Alcoholic beverage	4	5	3												0	0	0	0	0
Motor vehicle or operator					18		11	11	9	10	10	9	8	6	5	4	4	4	4
n.e.c.	7	6	9	14	16		11	7	6	6	5		4	3	3	4	4	4	4
Estate or gift taxes	2	4	5	5	5	5	3	2	2	2	2	2	2		2	1	1	1	1
Severance taxes							2	2	2	2		2	2		3	6	3	3	2
Poll taxes	1	1	1	1	0	0	0			0									
Taxes, n.e.c.			2	2	2	6	2	0	0	0	3	6	5	4	0	0	1	1	1
<b>TOTAL</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

<b>Major tax categories</b>	<b>1902</b>	<b>1913</b>	<b>1917</b>	<b>1922</b>	<b>1927</b>	<b>1932</b>	<b>1937</b>	<b>1942</b>	<b>1948</b>	<b>1952</b>	<b>1957</b>	<b>1962</b>	<b>1967</b>	<b>1972</b>	<b>1977</b>	<b>1982</b>	<b>1987</b>	<b>1992</b>	<b>1997</b>
Property	87	84	79	76	40	27	15	10	6	5	4	4	3	2	2	2	2	2	2
Sales					17		50	57	61	60	60	60	60	59	55	51	51	50	49
Income	0	0	1	2	3	2	6	10	14	15	15	17	20	25	30	32	34	35	37
Other	13	16	20	22	41	71	29	23	20	20	21	19	17	14	14	15	13	12	11
<b>TOTAL</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Special tax categories</b>																			
Income, corporate, and estate	22	26	24	31	13	7	12	13	16	17	17	19	22	25	31	34	35	36	38
Sales (except motor fuels)							21	29	39	38	38	40	42	44	44	43	43	42	42
Auto-related				34			40	40	31	32	32	29	26	21	16	13	12	12	11

**Table 23. Pre-1940 adoptions of general sales and individual income taxes, categorized by relative order of adopting the two taxes**

Sales tax only	Income tax only
Illinois	<b>1929-1939</b>
Indiana	Georgia
Michigan	Idaho
Ohio	Kentucky
South Dakota	Maryland
Washington	Minnesota
West Virginia	Montana
Wyoming	Oregon
	Tennessee
	Vermont
Both taxes	
<b>Sales tax first</b>	<b>Pre-1929</b>
California	Delaware
Colorado	Massachusetts
Iowa	New Hampshire
	New York
<b>In same year</b>	South Carolina
Arizona	Virginia
New Mexico	Wisconsin
<b>Income tax first (1929-1939)</b>	Neither tax
Alabama	Connecticut
Arkansas	Florida
Kansas	Maine
Louisiana	Nebraska
Utah	Nevada
	New Jersey
<b>Income tax first (pre-1929)</b>	Pennsylvania
Mississippi	Rhode Island
Missouri	Texas
North Carolina	
North Dakota	
Oklahoma	

This table lists states according to whether they adopted a general sales tax, an individual income tax, both, or neither during the period before 1940. For states that adopted both, the states are grouped according to which tax was adopted first. In addition, the table distinguishes between income taxes adopted before 1929 and those adopted starting in 1929.

To the limited extent that the order of tax adoption provides a guide to tax preference along a continuum running from sales taxation to income taxation, this arrangement of the states proceeds from those states most favorable to general sales taxes to those most favorable to individual income taxes.

Data sources. See Tables 24 and 25.

Also see Table 26.

## Table 24. General sales tax adoptions during the 1930s

**Note:** the table continues on 2 subsequent pages.

This table summarizes the adoption of general sales taxes during the 1930s. In addition to providing the year that a state ultimately adopted its *surviving* general sales tax system, the table organizes the states into several categories based on their status as of the end of the 1930s. The table also indicates which states used retail sales taxation as part of a more general multi-stage sales tax system.

**Adopted with high rate, and survived.** These states adopted a significant general sales tax system that included a retail sales tax of at least 1 percent. In addition, the general sales tax system was still in place at the end of the 1930s.

**Adopted with low rate, and survived.** These states nominally had general sales taxes during the 1930s; however, the rates were low and the revenue yields insignificant.

**Repealed, expired, or held unconstitutional.** These state adopted a general sales tax system during the 1930s; however, it was subsequently repealed (either by the legislature or voters), expired (because it was a temporary measure requiring re-ratification), or held unconstitutional by a court.

**Overtaken by referendum.** The legislatures in these states adopted general sales taxation; however, it was rejected by voters during a referendum.

**Not adopted.** Legislatures in these states did not adopt general sales taxation during the 1930s.

Within a specific year, states are organized alphabetically, not necessarily by their order of adoption. For additional details on exact dates of adoption, see Jacoby 1938, p. 72.

Data sources. Year of adoption of surviving general sales tax: Advisory Commission on Intergovernmental Relations 1976-1977. Other information: Haig and Shoup 1934, Jacoby 1938, Oster 1957, and Roy G. Blakey and Blakey 1945.



<b>General sales tax adopted during 1930s</b>	<b>Year of adoption for the state's surviving high- rate general sales tax</b>	
<b>Tax type, survival status, and state</b>	<b>Multi- stage tax</b>	
<b>Adopted with high rate, and survived</b>		
Mississippi	yes	1930
Arizona	yes	1933
California		1933
Illinois		1933
Indiana	yes	1933
Iowa		1933
Michigan		1933
New Mexico	yes	1933
North Carolina	yes	1933
Oklahoma		1933
South Dakota		1933
Utah		1933
Washington	yes	1933
West Virginia	yes	1933
Missouri		1934
Ohio		1934
Arkansas		1935
Colorado		1935
North Dakota		1935
Wyoming		1935
Alabama		1936
Kansas		1937
Louisiana		1938
<b>Adopted with low rate, and survived</b>		
Connecticut		1947
Virginia		1966
Delaware		-

<b>General sales tax adopted during 1930s</b>	<b>Multi- stage tax</b>	<b>Year of adoption for the state's surviving high- rate general sales tax</b>
<b>Tax type, survival status, and state</b>		
<b>Repealed, expired, or held unconstitutional</b>		
Maryland		1947
Georgia		1951
Pennsylvania		1953
Kentucky		1960
Idaho		1965
New York		1965
New Jersey		1966
<b>Overtaken by referendum</b>		
Maine		1951
Oregon		-
<b>Not adopted</b>		
Rhode Island		1947
Tennessee		1947
Florida		1949
South Carolina		1951
Nevada		1955
Texas		1961
Wisconsin		1961
Massachusetts		1966
Minnesota		1967
Nebraska		1967
Vermont		1969
Montana		-
New Hampshire		-

## Table 25. Income tax adoptions

**Note:** the table continues on 1 subsequent page.

This table provides the year that a state adopted its *surviving* individual and corporate income taxes. The table is sorted by the earliest year of adopting either tax, and the states are grouped to illustrate the Depression-era adoptions. Note that South Dakota and Ohio also implemented income taxes during the 1930s; however, their revenue impact was limited and they were subsequently repealed.

Within a specific year, states are organized alphabetically, not necessarily by their order of adoption.

Data sources. Advisory Commission on Intergovernmental Relations 1976-1977.

<b>State</b>	<b>Any income tax</b>	<b>Individual</b>	<b>Corporate</b>
Wisconsin	1911	1911	1911
Mississippi	1912	1912	1921
Connecticut	1915	1969	1915
Oklahoma	1915	1915	1931
Virginia	1915	1916	1915
Massachusetts	1916	1916	1919
Delaware	1917	1917	1957
Missouri	1917	1917	1917
Montana	1917	1933	1917
New York	1917	1919	1917
North Dakota	1919	1919	1919
North Carolina	1921	1921	1921
South Carolina	1922	1922	1922
New Hampshire	1923	1923	1970
Tennessee	1923	1931	1923
Arkansas	1929	1929	1929
California	1929	1935	1929
Georgia	1929	1929	1929
Oregon	1929	1930	1929
Idaho	1931	1931	1931
Utah	1931	1931	1931
Vermont	1931	1931	1931
Alabama	1933	1933	1933
Arizona	1933	1933	1933
Kansas	1933	1933	1933
Minnesota	1933	1933	1933
New Mexico	1933	1933	1933
Iowa	1934	1934	1934
Louisiana	1934	1934	1934
Pennsylvania	1935	1971	1935
Kentucky	1936	1936	1936
Colorado	1937	1937	1937
Maryland	1937	1937	1937
Rhode Island	1947	1971	1947
New Jersey	1958	1976	1958
West Virginia	1961	1961	1967
Indiana	1963	1963	1963
Michigan	1967	1967	1967
Nebraska	1967	1967	1967
Illinois	1969	1969	1969
Maine	1969	1969	1969
Florida	1971	-	1971
Ohio	1971	1971	1971
Nevada	-	-	-
South Dakota	-	-	-
Texas	-	-	-
Washington	-	-	-
Wyoming	-	-	-

**Table 26. Year of adoption for enduring state taxes adopted during the twentieth century**

**Note:** the table continues on 1 subsequent page.

Although cigarette taxes and the lottery were not major sources of revenue for the state government sector, they are included here because they were examined in the policy diffusion analysis discussed in Appendix 1.

Source: Advisory Commission on Intergovernmental Relations 1994-1995, p. 35-36.

State	Income		Sales			
	Individual	Corporate	General	Motor fuel	Cigarette	Lottery
Alabama	1933	1933	1936	1923	1935	-
Alaska	1949	1949	-	1946	1949	-
Arizona	1933	1933	1933	1921	1935	1981
Arkansas	1929	1929	1935	1921	1929	-
California	1935	1929	1933	1923	1959	1984
Colorado	1937	1937	1935	1919	1964	1983
Connecticut	1969	1915	1947	1921	1935	1972
Delaware	1917	1957	-	1923	1943	1975
Florida	-	1971	1949	1921	1943	1986
Georgia	1929	1929	1951	1921	1937	1992
Hawaii	1901	1901	1935	1932	1939	-
Idaho	1931	1931	1965	1923	1945	1988
Illinois	1969	1969	1933	1927	1941	1974
Indiana	1963	1963	1933	1923	1947	1989
Iowa	1934	1934	1933	1925	1921	1985
Kansas	1933	1933	1937	1925	1927	1986
Kentucky	1936	1936	1960	1920	1936	1988
Louisiana	1934	1934	1938	1921	1932	1990
Maine	1969	1969	1951	1923	1941	1974
Maryland	1937	1937	1947	1922	1958	1973
Massachusetts	1916	1919	1966	1929	1939	1972
Michigan	1967	1967	1933	1925	1947	1972
Minnesota	1933	1933	1967	1925	1947	1988
Mississippi	1912	1921	1930	1922	1932	-
Missouri	1917	1917	1934	1925	1955	1984
Montana	1933	1917	-	1921	1947	1986
Nebraska	1967	1967	1967	1925	1947	1992
Nevada	-	-	1955	1923	1947	-
New Hampshire	1923	1970	-	1923	1939	1964
New Jersey	1976	1958	1966	1927	1948	1970
New Mexico	1933	1933	1933	1919	1943	1994
New York	1919	1917	1965	1929	1939	1967
North Carolina	1921	1921	1933	1921	1969	-
North Dakota	1919	1919	1935	1919	1927	-
Ohio	1971	1971	1934	1925	1931	1974
Oklahoma	1915	1931	1933	1923	1933	-
Oregon	1930	1929	-	1919	1965	1984
Pennsylvania	1971	1935	1953	1921	1937	1972
Rhode Island	1971	1947	1947	1925	1939	1974
South Carolina	1922	1922	1951	1922	1923	-
South Dakota	-	-	1933	1922	1923	1986
Tennessee	1931	1923	1947	1923	1925	-
Texas	-	-	1961	1923	1931	1991
Utah	1931	1931	1933	1923	1923	-
Vermont	1931	1931	1969	1923	1937	1976
Virginia	1916	1915	1966	1923	1960	1987
Washington	-	-	1933	1921	1935	1982
West Virginia	1961	1967	1933	1923	1947	1984
Wisconsin	1911	1911	1961	1925	1939	1988
Wyoming	-	-	1935	1923	1951	-

**Table 27. State tax reliance variables analyzed: 1902-1962**

<b>Tax</b>	<b>1902</b>	<b>1913</b>	<b>1917</b>	<b>1922</b>	<b>1927</b>	<b>1932</b>	<b>1937</b>	<b>1942</b>	<b>1948</b>	<b>1952</b>	<b>1957</b>	<b>1962</b>
Property, total	•	•	•	•	•	•	•	•	•	•	•	•
General	•	•	•	•	•	•	•					
Special or corporate	•	•	•	•	•		•					
Sales, total							•	•	•	•	•	•
General							•	•	•	•	•	•
Motor fuel					•		•	•	•	•	•	•
Estate or gift			•	•	•	•						
Income, total			•	•	•	•	•	•	•	•	•	•
Individual							•	•	•	•	•	•
Corporate							•	•	•	•	•	•
Motor vehicle or operator					•		•	•	•	•	•	•

This table indicates the tax reliance variables analyzed in Appendix 1.

**Table 28. Independent variables used in the tax reliance analysis: 1902-1962**

**Note:** the table continues on 1 subsequent page.

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**Socioeconomic variables**

urban	Urban population as a percentage of total
inc_pc	Income per capita
man_emp	Manufacturing employment as a percentage of total population
black	Black population as a percentage of total
owner_occ	Owner-occupied housing units as a percentage of total
real_prop	Value of real property per capita

**Political variables**

dem_pres	Democratic votes as a percentage of total in most recent presidential election
turnout_pres	Turnout in most recent presidential election
compet_pres	Partisan competitiveness in most recent presidential election
gdem	Democratic governor (dummy: 0 or 100)
grep	Republican governor (dummy: 0 or 100)
ldem	Democratic legislators as a percentage of total
lrep	Republican legislators as a percentage of total
cdem	Democratic party control index (mean of governor and legislator variables)
crep	Republican party control index (mean of governor and legislator variables)

**Political culture variables (dummy: 0 or 1)**

pcult_tra	Traditionalistic (reference category)
pcult_mor	Moralistic
pcult_ind	Individualistic

**Census region variables (dummy: 0 or 1)**

reg_ne	Northeast (reference category)
reg_mw	Midwest
reg_so	South
reg_we	West

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Party control of state government: gdem, grep, ldem, lrep, cdem, and crep.

- Main source: W. Dean Burnham 198?
- Missing data for 9 states, 1926-1940: Dubin 2007.
- The cdem and crep variables were computed from the other variables.

Political culture: pcult\_tra, pcult\_mor, and pcult\_ind.

- Elazar 1972

Region: reg\_ne, reg\_mw, reg\_so, and reg\_we.

- See Appendix 5.

Income per capita: inc\_pc.

- Data for 1929 and 1931: Roy G. Blakey 1932, p. 529, Table 28, "Brookmire estimates of per capita income and per family income by states and groups of states".



- Data for all other years: data were supplied directly by Kris James Mitchener; the data underlies Mitchener and McLean 1999.

Manufacturing employment: man\_emp.

- Data for 1890: *Statistical Abstract of the Unites States: 1905*, p. 485-87, Table 160.
- Data for 1904, 1914, 1917, and 1921: *Statistical Abstract of the Unites States: 1922*, p. 222-30, Table 160.
- Data for 1927 and 1931: *Statistical Abstract of the Unites States: 1933*, p. 719-23, Table 731.
- Data for 1937: *Statistical Abstract of the Unites States: 1942*, p. 919-20, Table 894.
- Data for all other years: Hofferbert 197?.

Other variables: urban, black, owner\_occ, real\_prop, dem\_pres, turnout\_pres, compet\_pres.

- Hofferbert 197?.

## Table 29. Tax reliance regression results: 1902-1962

**Note:** the table continues on 6 subsequent pages.

The tax reliance variables used as dependent variables are as follows:

ptx_ge	Property, general.
ptx_sp	Property, special or corporate.
ptx	Property, total.
est	Estate, inheritance, or gift.
itx	Income, total.
itx_co	Income, corporate.
itx_sp	Income, individual.
stx	Sales, total.
stx_ge	Sales, general.
stx_sp_m	Sales, motor vehicle fuel.
lic_mo	License, motor vehicles and drivers.

The regressions use the following independent (or predictor) variables:

urban	Urban population as a percentage of total.
dem_pres	Democratic votes as a percentage of total in most recent presidential election.
reg_mw	Census region dummy variables (Northeast = reference category). — Midwest. — South. — West.
reg_so	
reg_we	

Tax reliance variable and year					Tax reliance variable and year				
	R <sup>2</sup>	Independent variable	beta	p		R <sup>2</sup>	Independent variable	beta	p
<b>ptx_ge</b>					<b>ptx_sp</b>				
1902	0.63				1902	0.73			
		urban	-0.51	0.00			urban	0.39	0.01
		dem_pres	0.29	0.02			dem_pres	-0.26	0.02
		reg_mw	0.37	0.03			reg_mw	-0.48	0.00
		reg_so	-0.05	0.82			reg_so	-0.40	0.04
		reg_w e	0.46	0.01			reg_w e	-0.60	0.00
1913	0.52				1913	0.53			
		urban	-0.70	0.00			urban	0.56	0.00
		dem_pres	0.43	0.01			dem_pres	-0.50	0.00
		reg_mw	0.03	0.86			reg_mw	-0.13	0.49
		reg_so	-0.58	0.04			reg_so	0.38	0.16
		reg_w e	0.06	0.75			reg_w e	-0.18	0.33
1917	0.54				1917	0.38			
		urban	-0.53	0.00			urban	0.36	0.05
		dem_pres	0.41	0.01			dem_pres	-0.38	0.03
		reg_mw	0.14	0.40			reg_mw	-0.23	0.25
		reg_so	-0.30	0.19			reg_so	0.15	0.58
		reg_w e	0.18	0.30			reg_w e	-0.21	0.29
1922	0.51				1922	0.35			
		urban	-0.48	0.00			urban	0.33	0.05
		dem_pres	0.50	0.01			dem_pres	-0.49	0.02
		reg_mw	0.24	0.15			reg_mw	-0.27	0.16
		reg_so	-0.45	0.06			reg_so	0.49	0.07
		reg_w e	0.27	0.10			reg_w e	-0.20	0.30
1927	0.37				1927	0.46			
		urban	-0.35	0.03			urban	0.34	0.03
		dem_pres	0.37	0.07			dem_pres	-0.22	0.26
		reg_mw	0.23	0.22			reg_mw	-0.54	0.00
		reg_so	-0.42	0.10			reg_so	-0.25	0.30
		reg_w e	0.46	0.02			reg_w e	-0.57	0.00
1932	0.38				1937	0.37			
		urban	-0.36	0.03			urban	0.21	0.18
		dem_pres	0.28	0.12			dem_pres	0.09	0.62
		reg_mw	0.08	0.67			reg_mw	-0.55	0.00
		reg_so	-0.40	0.11			reg_so	-0.55	0.04
		reg_w e	0.27	0.16			reg_w e	-0.61	0.00
1937	0.19								
		urban	-0.33	0.07					
		dem_pres	0.33	0.10					
		reg_mw	-0.21	0.31					
		reg_so	-0.68	0.03					
		reg_w e	-0.16	0.49					

Tax reliance variable and year					Tax reliance variable and year				
	R <sup>2</sup>	Independent variable	beta	p		R <sup>2</sup>	Independent variable	beta	p
<b>ptx</b>					<b>ptx (cont.)</b>				
1902	0.27				1942	0.22			
		urban	-0.33	0.14			urban	-0.35	0.05
		dem_pres	0.12	0.49			dem_pres	0.12	0.57
		reg_mw	-0.10	0.68			reg_mw	-0.10	0.63
		reg_so	-0.78	0.01			reg_so	-0.53	0.07
		reg_w e	-0.14	0.52			reg_w e	0.08	0.69
1913	0.25				1948	0.12			
		urban	-0.63	0.00			urban	-0.11	0.54
		dem_pres	0.13	0.50			dem_pres	-0.12	0.45
		reg_mw	-0.14	0.55			reg_mw	0.07	0.74
		reg_so	-0.68	0.05			reg_so	-0.08	0.76
		reg_w e	-0.17	0.46			reg_w e	0.26	0.22
1917	0.37				1952	0.26			
		urban	-0.55	0.00			urban	-0.10	0.56
		dem_pres	0.29	0.10			dem_pres	-0.28	0.14
		reg_mw	-0.03	0.88			reg_mw	0.23	0.22
		reg_so	-0.39	0.15			reg_so	0.16	0.53
		reg_w e	0.06	0.76			reg_w e	0.44	0.02
1922	0.38				1957	0.28			
		urban	-0.47	0.01			urban	-0.13	0.38
		dem_pres	0.30	0.13			dem_pres	-0.29	0.09
		reg_mw	0.09	0.61			reg_mw	0.43	0.03
		reg_so	-0.21	0.42			reg_so	0.26	0.29
		reg_w e	0.25	0.18			reg_w e	0.53	0.01
1927	0.29				1962	0.26			
		urban	-0.25	0.14			urban	0.03	0.85
		dem_pres	0.35	0.12			dem_pres	-0.24	0.14
		reg_mw	0.00	0.99			reg_mw	0.29	0.13
		reg_so	-0.64	0.02			reg_so	0.16	0.44
		reg_w e	0.26	0.20			reg_w e	0.46	0.01
1932	0.38								
		urban	-0.36	0.03					
		dem_pres	0.28	0.12					
		reg_mw	0.08	0.67					
		reg_so	-0.40	0.11					
		reg_w e	0.27	0.16					
1937	0.29								
		urban	-0.22	0.18					
		dem_pres	0.41	0.03					
		reg_mw	-0.58	0.00					
		reg_so	-1.09	0.00					
		reg_w e	-0.56	0.01					

Tax reliance variable and year					Tax reliance variable and year				
	R <sup>2</sup>	Independent variable	beta	p		R <sup>2</sup>	Independent variable	beta	p
<b>est</b>					<b>itx (cont.)</b>				
1917	0.41				1932	0.11			
		urban	0.49	0.01			urban	-0.11	0.56
		dem_pres	-0.09	0.57			dem_pres	0.18	0.39
		reg_mw	-0.15	0.44			reg_mw	-0.06	0.78
		reg_so	-0.18	0.49			reg_so	-0.05	0.87
		reg_w e	-0.12	0.53			reg_w e	-0.27	0.23
1922	0.71				1937	0.03			
		urban	0.50	0.00			urban	-0.04	0.86
		dem_pres	-0.13	0.35			dem_pres	0.16	0.45
		reg_mw	-0.49	0.00			reg_mw	-0.13	0.58
		reg_so	-0.39	0.03			reg_so	-0.13	0.68
		reg_w e	-0.51	0.00			reg_w e	-0.15	0.56
1927	0.64				1942	0.03			
		urban	0.49	0.00			urban	0.06	0.76
		dem_pres	-0.12	0.44			dem_pres	0.02	0.95
		reg_mw	-0.48	0.00			reg_mw	-0.15	0.49
		reg_so	-0.41	0.04			reg_so	0.02	0.96
		reg_w e	-0.44	0.00			reg_w e	0.02	0.94
1932	0.69				1948	0.03			
		urban	0.64	0.00			urban	-0.03	0.88
		dem_pres	-0.21	0.09			dem_pres	0.13	0.44
		reg_mw	-0.23	0.08			reg_mw	-0.17	0.44
		reg_so	-0.05	0.79			reg_so	-0.14	0.61
		reg_w e	-0.24	0.08			reg_w e	-0.02	0.91
					1952	0.06			
							urban	-0.07	0.69
							dem_pres	0.04	0.86
							reg_mw	-0.32	0.14
							reg_so	-0.27	0.37
							reg_w e	-0.14	0.52
<b>itx</b>					1957	0.04			
1917	0.07						urban	-0.02	0.92
		urban	0.08	0.70			dem_pres	0.01	0.94
		dem_pres	0.02	0.94			reg_mw	-0.24	0.26
		reg_mw	-0.23	0.33			reg_so	-0.09	0.75
		reg_so	-0.14	0.66			reg_w e	-0.05	0.82
		reg_w e	-0.26	0.29					
1922	0.08				1962	0.03			
		urban	-0.02	0.92			urban	-0.03	0.88
		dem_pres	0.04	0.87			dem_pres	0.08	0.67
		reg_mw	0.09	0.69			reg_mw	-0.16	0.47
		reg_so	0.15	0.64			reg_so	-0.08	0.74
		reg_w e	-0.15	0.50			reg_w e	0.04	0.86
1927	0.10								
		urban	-0.02	0.93					
		dem_pres	-0.02	0.95					
		reg_mw	0.12	0.58					
		reg_so	0.26	0.40					
		reg_w e	-0.12	0.59					

<b>Tax reliance variable and year</b>					<b>Tax reliance variable and year</b>				
	<b>R<sup>2</sup></b>	<b>Indepen- dent variable</b>	<b>beta</b>	<b>p</b>		<b>R<sup>2</sup></b>	<b>Indepen- dent variable</b>	<b>beta</b>	<b>p</b>
<b>itx_co</b>					<b>itx_in</b>				
1937	0.15				1937	0.06			
		urban	-0.28	0.12			urban	0.18	0.35
		dem_pres	0.23	0.25			dem_pres	0.02	0.94
		reg_mw	0.00	0.99			reg_mw	-0.16	0.47
		reg_so	-0.12	0.69			reg_so	-0.07	0.82
		reg_w e	-0.21	0.37			reg_w e	-0.02	0.94
1942	0.08				1942	0.06			
		urban	-0.06	0.76			urban	0.17	0.37
		dem_pres	0.28	0.24			dem_pres	-0.29	0.24
		reg_mw	-0.22	0.31			reg_mw	-0.02	0.92
		reg_so	-0.28	0.37			reg_so	0.35	0.27
		reg_w e	-0.12	0.59			reg_w e	0.16	0.47
1948	0.13				1948	0.03			
		urban	0.00	0.98			urban	-0.04	0.81
		dem_pres	0.24	0.13			dem_pres	0.00	0.98
		reg_mw	-0.39	0.06			reg_mw	0.07	0.74
		reg_so	-0.30	0.24			reg_so	0.04	0.89
		reg_w e	-0.24	0.25			reg_w e	0.18	0.42
1952	0.14				1952	0.03			
		urban	-0.07	0.68			urban	-0.06	0.77
		dem_pres	0.20	0.33			dem_pres	-0.10	0.65
		reg_mw	-0.46	0.03			reg_mw	-0.14	0.53
		reg_so	-0.47	0.10			reg_so	-0.04	0.88
		reg_w e	-0.29	0.14			reg_w e	0.02	0.92
1957	0.19				1957	0.03			
		urban	0.02	0.88			urban	-0.03	0.85
		dem_pres	0.32	0.09			dem_pres	-0.13	0.53
		reg_mw	-0.53	0.01			reg_mw	-0.07	0.75
		reg_so	-0.51	0.05			reg_so	0.12	0.68
		reg_w e	-0.39	0.05			reg_w e	0.11	0.59
1962	0.16				1962	0.02			
		urban	0.04	0.79			urban	-0.05	0.79
		dem_pres	0.19	0.29			dem_pres	0.03	0.86
		reg_mw	-0.37	0.08			reg_mw	-0.07	0.75
		reg_so	-0.20	0.36			reg_so	-0.03	0.90
		reg_w e	-0.17	0.39			reg_w e	0.10	0.63

<b>Tax reliance variable and year</b>					<b>Tax reliance variable and year</b>				
	<b>R<sup>2</sup></b>	<b>Indepen- dent variable</b>	<b>beta</b>	<b>p</b>		<b>R<sup>2</sup></b>	<b>Indepen- dent variable</b>	<b>beta</b>	<b>p</b>
<b>stx</b>					<b>stx_ge</b>				
1937	0.44				1937	0.29			
		urban	-0.11	0.46			urban	0.14	0.41
		dem_pres	0.04	0.78			dem_pres	-0.09	0.63
		reg_mw	0.71	0.00			reg_mw	0.68	0.00
		reg_so	0.57	0.02			reg_so	0.45	0.11
		reg_w e	0.67	0.00			reg_w e	0.64	0.00
1942	0.24				1942	0.29			
		urban	-0.05	0.79			urban	0.07	0.67
		dem_pres	0.20	0.34			dem_pres	-0.05	0.81
		reg_mw	0.58	0.01			reg_mw	0.66	0.00
		reg_so	0.36	0.21			reg_so	0.37	0.18
		reg_w e	0.34	0.10			reg_w e	0.55	0.01
1948	0.11				1948	0.23			
		urban	-0.06	0.72			urban	0.10	0.54
		dem_pres	-0.04	0.82			dem_pres	-0.10	0.52
		reg_mw	0.41	0.06			reg_mw	0.63	0.00
		reg_so	0.27	0.29			reg_so	0.39	0.10
		reg_w e	0.22	0.30			reg_w e	0.49	0.02
1952	0.16				1952	0.29			
		urban	-0.10	0.57			urban	-0.03	0.88
		dem_pres	0.36	0.08			dem_pres	0.48	0.01
		reg_mw	0.39	0.06			reg_mw	0.61	0.00
		reg_so	0.07	0.80			reg_so	0.05	0.85
		reg_w e	0.15	0.45			reg_w e	0.38	0.04
1957	0.10				1957	0.21			
		urban	0.01	0.97			urban	0.12	0.46
		dem_pres	0.29	0.14			dem_pres	0.40	0.03
		reg_mw	0.19	0.36			reg_mw	0.36	0.07
		reg_so	0.02	0.95			reg_so	0.06	0.80
		reg_w e	0.03	0.88			reg_w e	0.28	0.15
1962	0.05				1962	0.12			
		urban	-0.04	0.83			urban	0.04	0.84
		dem_pres	0.06	0.74			dem_pres	0.16	0.36
		reg_mw	0.16	0.46			reg_mw	0.45	0.04
		reg_so	0.12	0.60			reg_so	0.37	0.10
		reg_w e	-0.07	0.73			reg_w e	0.33	0.10

<b>Tax reliance variable and year</b>					<b>Tax reliance variable and year</b>				
	<b>R<sup>2</sup></b>	<b>Indepen- dent variable</b>	<b>beta</b>	<b>p</b>		<b>R<sup>2</sup></b>	<b>Indepen- dent variable</b>	<b>beta</b>	<b>p</b>
<b>stx_sp_m</b>					<b>lic_mo</b>				
1927	0.39				1927	0.27			
		urban	-0.37	0.02			urban	0.04	0.80
		dem_pres	0.26	0.21			dem_pres	-0.39	0.09
		reg_mw	0.31	0.09			reg_mw	-0.25	0.22
		reg_so	0.21	0.40			reg_so	-0.06	0.83
		reg_w e	0.38	0.05			reg_w e	-0.64	0.00
1937	0.21				1937	0.52			
		urban	-0.34	0.06			urban	-0.04	0.77
		dem_pres	0.05	0.78			dem_pres	-0.42	0.01
		reg_mw	-0.03	0.88			reg_mw	-0.34	0.04
		reg_so	0.13	0.66			reg_so	-0.38	0.10
		reg_w e	0.10	0.64			reg_w e	-0.62	0.00
1942	0.30				1942	0.34			
		urban	-0.33	0.05			urban	-0.03	0.85
		dem_pres	0.13	0.52			dem_pres	-0.36	0.08
		reg_mw	-0.03	0.89			reg_mw	-0.38	0.04
		reg_so	0.18	0.50			reg_so	-0.39	0.15
		reg_w e	0.11	0.58			reg_w e	-0.57	0.00
1948	0.32				1948	0.33			
		urban	-0.47	0.00			urban	-0.12	0.46
		dem_pres	-0.09	0.52			dem_pres	-0.18	0.20
		reg_mw	-0.18	0.33			reg_mw	-0.42	0.03
		reg_so	0.10	0.64			reg_so	-0.65	0.01
		reg_w e	0.10	0.58			reg_w e	-0.66	0.00
1952	0.35				1952	0.35			
		urban	-0.39	0.02			urban	0.01	0.93
		dem_pres	-0.24	0.18			dem_pres	-0.47	0.01
		reg_mw	-0.10	0.58			reg_mw	-0.21	0.25
		reg_so	0.34	0.16			reg_so	-0.30	0.22
		reg_w e	0.19	0.28			reg_w e	-0.39	0.03
1957	0.26				1957	0.37			
		urban	-0.51	0.00			urban	-0.22	0.12
		dem_pres	-0.18	0.31			dem_pres	-0.41	0.01
		reg_mw	0.02	0.90			reg_mw	0.05	0.78
		reg_so	0.12	0.61			reg_so	-0.33	0.15
		reg_w e	0.07	0.69			reg_w e	-0.18	0.30
1962	0.25				1962	0.35			
		urban	-0.27	0.09			urban	-0.11	0.46
		dem_pres	-0.35	0.04			dem_pres	-0.39	0.01
		reg_mw	-0.13	0.50			reg_mw	-0.12	0.50
		reg_so	-0.07	0.73			reg_so	-0.44	0.02
		reg_w e	-0.28	0.13			reg_w e	-0.18	0.29



**Table 30. Tax reliance regression results — chronological: 1902-1962**

**Note:** the table continues on 2 subsequent pages.

See Table 29 for details on the regressions.

For each tax reliance variable analyzed (the columns), the table presents values for  $R^2$  and the standardized regression coefficients (beta).

For display purposes, the following cells are in bold text:  $R^2$  values of 0.33 or greater; and beta values with a corresponding p-value of 0.05 or less.

R <sup>2</sup> or variable	Year	Regression parameters: values for R <sup>2</sup> and beta										
		ptx ge	ptx sp	ptx	est	itx	itx co	itx in	stx	stx ge	stx sp_m	lic mo
R <sup>2</sup>	1902	<b>0.63</b>	<b>0.73</b>	0.27								
	1913	<b>0.52</b>	<b>0.53</b>	0.25								
	1917	<b>0.54</b>	<b>0.38</b>	<b>0.37</b>	<b>0.41</b>	0.07						
	1922	<b>0.51</b>	<b>0.35</b>	<b>0.38</b>	<b>0.71</b>	0.08						
	1927	<b>0.37</b>	<b>0.46</b>	0.29	<b>0.64</b>	0.10					<b>0.39</b>	0.27
	1932	<b>0.38</b>		<b>0.38</b>	<b>0.69</b>	0.11						
	1937	0.19	<b>0.37</b>	0.29		0.03	0.15	0.06	<b>0.44</b>	0.29	0.21	<b>0.52</b>
	1942			0.22		0.03	0.08	0.06	0.24	0.29	0.30	<b>0.34</b>
	1948			0.12		0.03	0.13	0.03	0.11	0.23	0.32	<b>0.33</b>
	1952			0.26		0.06	0.14	0.03	0.16	0.29	<b>0.35</b>	<b>0.35</b>
	1957			0.28		0.04	0.19	0.03	0.10	0.21	0.26	<b>0.37</b>
	1962			0.26		0.03	0.16	0.02	0.05	0.12	0.25	<b>0.35</b>
urban	1902	<b>-0.51</b>	<b>0.39</b>	-0.33								
	1913	<b>-0.70</b>	<b>0.56</b>	<b>-0.63</b>								
	1917	<b>-0.53</b>	<b>0.36</b>	<b>-0.55</b>	<b>0.49</b>	0.08						
	1922	<b>-0.48</b>	0.33	<b>-0.47</b>	<b>0.50</b>	-0.02						
	1927	<b>-0.35</b>	<b>0.34</b>	-0.25	<b>0.49</b>	-0.02					<b>-0.37</b>	0.04
	1932	<b>-0.36</b>		<b>-0.36</b>	<b>0.64</b>	-0.11						
	1937	-0.33	0.21	-0.22		-0.04	-0.28	0.18	-0.11	0.14	-0.34	-0.04
	1942			-0.35		0.06	-0.06	0.17	-0.05	0.07	<b>-0.33</b>	-0.03
	1948			-0.11		-0.03	0.00	-0.04	-0.06	0.10	<b>-0.47</b>	-0.12
	1952			-0.10		-0.07	-0.07	-0.06	-0.10	-0.03	<b>-0.39</b>	0.01
	1957			-0.13		-0.02	0.02	-0.03	0.01	0.12	<b>-0.51</b>	-0.22
	1962			0.03		-0.03	0.04	-0.05	-0.04	0.04	-0.27	-0.11
dem_pres	1902	<b>0.29</b>	<b>-0.26</b>	0.12								
	1913	<b>0.43</b>	<b>-0.50</b>	0.13								
	1917	<b>0.41</b>	<b>-0.38</b>	0.29	-0.09	0.02						
	1922	<b>0.50</b>	<b>-0.49</b>	0.30	-0.13	0.04						
	1927	0.37	-0.22	0.35	-0.12	-0.02					0.26	-0.39
	1932	0.28		0.28	-0.21	0.18						
	1937	0.33	0.09	<b>0.41</b>		0.16	0.23	0.02	0.04	-0.09	0.05	<b>-0.42</b>
	1942			0.12		0.02	0.28	-0.29	0.20	-0.05	0.13	-0.36
	1948			-0.12		0.13	0.24	0.00	-0.04	-0.10	-0.09	-0.18
	1952			-0.28		0.04	0.20	-0.10	0.36	<b>0.48</b>	-0.24	<b>-0.47</b>
	1957			-0.29		0.01	0.32	-0.13	0.29	<b>0.40</b>	-0.18	<b>-0.41</b>
	1962			-0.24		0.08	0.19	0.03	0.06	0.16	<b>-0.35</b>	<b>-0.39</b>

R <sup>2</sup> or variable	Year	Regression parameters: values for R <sup>2</sup> and beta										
		ptx ge	ptx sp	ptx	est	itx	itx co	itx in	stx	stx ge	stx sp_m	lic mo
<b>reg_mw</b>												
	1902	<b>0.37</b>	<b>-0.48</b>	-0.10								
	1913	0.03	-0.13	-0.14								
	1917	0.14	-0.23	-0.03	-0.15	-0.23						
	1922	0.24	-0.27	0.09	<b>-0.49</b>	0.09						
	1927	0.23	<b>-0.54</b>	0.00	<b>-0.48</b>	0.12					0.31	-0.25
	1932	0.08		0.08	-0.23	-0.06						
	1937	-0.21	<b>-0.55</b>	<b>-0.58</b>		-0.13	0.00	-0.16	<b>0.71</b>	<b>0.68</b>	-0.03	<b>-0.34</b>
	1942			-0.10		-0.15	-0.22	-0.02	<b>0.58</b>	<b>0.66</b>	-0.03	<b>-0.38</b>
	1948			0.07		-0.17	-0.39	0.07	0.41	<b>0.63</b>	-0.18	<b>-0.42</b>
	1952			0.23		-0.32	<b>-0.46</b>	-0.14	0.39	<b>0.61</b>	-0.10	-0.21
	1957			<b>0.43</b>		-0.24	<b>-0.53</b>	-0.07	0.19	0.36	0.02	0.05
	1962			0.29		-0.16	-0.37	-0.07	0.16	<b>0.45</b>	-0.13	-0.12
<b>reg_so</b>												
	1902	-0.05	<b>-0.40</b>	<b>-0.78</b>								
	1913	<b>-0.58</b>	0.38	<b>-0.68</b>								
	1917	-0.30	0.15	-0.39	-0.18	-0.14						
	1922	-0.45	0.49	-0.21	<b>-0.39</b>	0.15						
	1927	-0.42	-0.25	<b>-0.64</b>	<b>-0.41</b>	0.26					0.21	-0.06
	1932	-0.40		-0.40	-0.05	-0.05						
	1937	<b>-0.68</b>	<b>-0.55</b>	<b>-1.09</b>		-0.13	-0.12	-0.07	<b>0.57</b>	0.45	0.13	-0.38
	1942			-0.53		0.02	-0.28	0.35	0.36	0.37	0.18	-0.39
	1948			-0.08		-0.14	-0.30	0.04	0.27	0.39	0.10	<b>-0.65</b>
	1952			0.16		-0.27	-0.47	-0.04	0.07	0.05	0.34	-0.30
	1957			0.26		-0.09	<b>-0.51</b>	0.12	0.02	0.06	0.12	-0.33
	1962			0.16		-0.08	-0.20	-0.03	0.12	0.37	-0.07	<b>-0.44</b>
<b>reg_we</b>												
	1902	<b>0.46</b>	<b>-0.60</b>	-0.14								
	1913	0.06	-0.18	-0.17								
	1917	0.18	-0.21	0.06	-0.12	-0.26						
	1922	0.27	-0.20	0.25	<b>-0.51</b>	-0.15						
	1927	<b>0.46</b>	<b>-0.57</b>	0.26	<b>-0.44</b>	-0.12					<b>0.38</b>	<b>-0.64</b>
	1932	0.27		0.27	-0.24	-0.27						
	1937	-0.16	<b>-0.61</b>	<b>-0.56</b>		-0.15	-0.21	-0.02	<b>0.67</b>	<b>0.64</b>	0.10	<b>-0.62</b>
	1942			0.08		0.02	-0.12	0.16	0.34	<b>0.55</b>	0.11	<b>-0.57</b>
	1948			0.26		-0.02	-0.24	0.18	0.22	<b>0.49</b>	0.10	<b>-0.66</b>
	1952			<b>0.44</b>		-0.14	-0.29	0.02	0.15	<b>0.38</b>	0.19	<b>-0.39</b>
	1957			<b>0.53</b>		-0.05	<b>-0.39</b>	0.11	0.03	0.28	0.07	-0.18
	1962			<b>0.46</b>		0.04	-0.17	0.10	-0.07	0.33	-0.28	-0.18

**Table 31. General sales and individual income tax adoptions before 1940, by region**

Census region (reg_cr)	General sales tax				Individual income tax		
	States	Adopted tax before 1940 (has_sg)		Percentage adopting	Adopted tax before 1940 (has_ii)		Percentage adopting
		No	Yes		No	Yes	
Northeast	9	9	0	0	5	4	44
Midwest	12	3	9	75	6	6	50
South	16	9	7	44	3	13	81
West	11	4	7	64	3	8	73
<b>Total</b>	<b>48</b>	<b>25</b>	<b>23</b>	<b>48</b>	<b>17</b>	<b>31</b>	<b>65</b>
<b>Tests for association with reg_cr</b>		<b>has_sg</b>		<b>has_ii</b>			
Pearson Chi-square significance		0.005		0.174			

The test for association was between reg\_cr (Census region) and has\_sg or has\_ii (dichotomous variables coded as 1 if a state adopted the tax before 1940, 0 otherwise). The chi-square statistic is commonly used to test an association between categorical variables. The significance levels for that test are reported.

**Table 32. Average number of unified governments per state during the 1932-1938 period, by whether the state adopted a general sales tax**

Adopted general sales tax before 1940 (has_sg)	States	Governments, 1932-1938			Mean number of unified governments per state
		Total	Unified	Divided	
Yes	23	92	87	5	3.8
No	23	92	67	25	2.9
<b>Total</b>	<b>46</b>	<b>184</b>	<b>154</b>	<b>30</b>	

**T-test for equality of means**

Significance	0.003
--------------	-------

The reported t-test assesses whether the mean number of unified governments per state during the 1932-1938 period differs significantly among the two groups of states — those that did and did not adopt a general sales tax before 1940 (has\_sg).

Minnesota and Nebraska, both non-adopters, are excluded from the table because they had non-partisan legislatures.

This analysis makes a simplifying assumption by treating all states as though they operated on a biennial legislative calendar and by using party control data for the nearest even-numbered year either preceding or on the actual year of a tax adoption. With more precise data about the control of state legislatures and the dates of tax adoptions, one might have to revise some of the statistics cited here.

Data on party control of state government: see Table 28.

**Table 33. General sales and individual income tax adoptions before 1940, by the number of unified governments during the 1932-1938 period**

Number of unified governments, 1932-1938 (n_unig_30s)	General sales tax				Individual income tax		
	States	Adopted tax before 1940 (has_sg)		Percentage adopting	Adopted tax before 1940 (has_ii)		Percentage adopting
		No	Yes		No	Yes	
1	4	4	0	0	1	3	75
2	6	5	1	17	3	3	50
3	6	3	3	50	3	3	50
4	30	11	19	63	9	21	70
<b>Total</b>	<b>46</b>	<b>23</b>	<b>23</b>	<b>50</b>	<b>16</b>	<b>30</b>	<b>65</b>
<b>Tests for association with n_unig_30s</b>		<b>has_sg</b>		<b>has_ii</b>			
Pearson Chi-square significance		0.032		0.638			
Mantel-Haenszel chi-square significance		0.004		0.633			

Also see text for Table 32.

The tests for association were between n\_unig\_30s (the number of unified governments a state had during the 1932-1938 period) and has\_sg or has\_ii (dichotomous variables coded as 1 if a state adopted the tax before 1940, 0 otherwise).

The chi-square statistic is commonly used to test an association between categorical variables. The significance levels for that test are reported. Also reported are significance levels for the Mantel-Haenszel chi-square statistic, which is geared toward testing for a relationship between ordinal variables (which we have this case).

Because every state had at least 1 unified government during the period, the table omits the row for n\_unig\_30s = 0.

The results for the income tax are presented here for general comparison, but the intent is not to emphasize the findings for the income tax. One would not expect that a measure of unified government control during the 1930s would have a strong association with pre-1940 income tax adoptions, many of which occurred *before* the 1930s.

**Table 34. Logistic regression results for general sales tax adoptions during the 1930s**

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**Classification table: has\_sg**

<b>Observed</b>	<b>Predicted by model</b>		<b>Percentage correct</b>
	<b>0</b>	<b>1</b>	
0	21	2	91
1	8	15	65
<b>Overall</b>			<b>78</b>
<b>Without model</b>			<b>50</b>

**Logistic regression parameters**

<b>Variable</b>	<b>B</b>	<b>Signif.</b>
n_unig_30s	2.54	0.045
reg_cr	-	0.256
Midwest	25.84	-
South	19.36	-
West	20.68	-

**R<sup>2</sup> values**

Cox & Snell	-	0.481
Nagelkerke	-	0.642

---

See Table 33 for information on the variables used in the regression.

**Table 35. Sales tax reliance, by region and unified government control: 1937**

Region	Number of unified governments	Number of states	Mean sales tax reliance
Northeast	1	2	31.3
	2	4	27.3
	3	1	28.8
	4	2	33.8
<b>Overall</b>	<b>9</b>	<b>29.8</b>	
Midwest	1	1	35.3
	2	1	59.6
	3	2	57.6
	4	6	62.8
<b>Overall</b>	<b>10</b>	<b>58.7</b>	
South	1	1	28.4
	2	1	39.3
	4	14	54.1
<b>Overall</b>	<b>16</b>	<b>51.6</b>	
West	3	3	49.7
	4	8	58.2
<b>Overall</b>	<b>11</b>	<b>55.9</b>	
Overall	1	4	31.6
	2	6	34.7
	3	6	48.9
	4	30	55.6
<b>Overall</b>	<b>46</b>	<b>49.9</b>	

This table provides mean sales tax reliance (including general and specific), by region and by the number of unified governments (of either party) that the state experienced during the 1932-1938 period.

See Tables 36 and 32 for details.



**Table 36. Sales tax reliance regression results — the role of unified government: 1937**

**Note:** the table continues on 1 subsequent page.

The regressions use two types of independent variables: Census region and a measure of unified government control during the 1932-1938 period. A state government was considered unified if the same political party held the governor's office and at least 50 percent of legislative seats.

Number of unified governments during the 1932-1938 period, by party:

unig_dem	Democrat
unig_reg	Republican

See Tables 29, 32, and 36 for further details.

<b>Tax reliance variable</b>	<b>Model</b>	<b>R<sup>2</sup></b>	<b>Independent variable</b>	<b>beta</b>	<b>p</b>
<b>Total: stx</b>					
	Region	0.43			
			reg_mw	0.77	0.00
			reg_so	0.70	0.00
			reg_w e	0.75	0.00
	Unified government	0.41			
			unig_dem	0.85	0.00
			unig_rep	0.35	0.04
	Combined	0.62			
			reg_mw	0.61	0.00
			reg_so	0.30	0.10
			reg_w e	0.41	0.01
			unig_dem	0.75	0.00
			unig_rep	0.38	0.01
<b>General: stx_ge</b>					
	Region	0.28			
			reg_mw	0.60	0.00
			reg_so	0.26	0.15
			reg_w e	0.53	0.00
	Unified government	0.17			
			unig_dem	0.59	0.01
			unig_rep	0.35	0.08
	Combined	0.42			
			reg_mw	0.46	0.01
			reg_so	-0.09	0.69
			reg_w e	0.24	0.23
			unig_dem	0.65	0.00
			unig_rep	0.33	0.07
<b>Motor fuel: stx_sp_m</b>					
	Region	0.14			
			reg_mw	0.14	0.45
			reg_so	0.46	0.02
			reg_w e	0.31	0.10
	Unified government	0.07			
			unig_dem	0.31	0.14
			unig_rep	0.07	0.73
	Combined	0.14			
			reg_mw	0.15	0.47
			reg_so	0.48	0.08
			reg_w e	0.31	0.19
			unig_dem	0.08	0.76
			unig_rep	0.11	0.60

**Table 37. Frequency distribution of every combination of 4 initial adopters chosen from the hypothetical nation depicted in Figure 27**

<b>Outcomes: number of states without a prior- adopting neighbor</b>	<b>Frequency</b>	<b>Cumulative percentage</b>	<b>Probability that next adoption would not have a prior- adopting neighbor</b>
0	123	7	0.00
1	272	22	0.08
2	455	47	0.17
3	419	70	0.25
4	291	86	0.33
5	177	95	0.42
6	65	99	0.50
7	11	99	0.58
8	6	99	0.67
9	1	100	0.75
<b>Total</b>	1820		

The table has the following columns:

**Outcomes:** the 1,820 combinations (4 states selected from a set of 16) are grouped according to the number of the remaining 12 states that would lack a prior-adopting neighbor.

**Frequency:** the number of combinations in each group of outcomes.

**Cumulative percentage of the frequency counts.**

**Falsification probability.** For each value from the first column, the last column indicates the falsification probability — that is, the probability that the next adoption would not have a prior adopting neighbor. The specific example depicted in Figure 27 is shown in bold and falls in the row that has 2 states without any prior-adopting neighbors (states N and O), which implies a probability of 0.17 (2 / 12).

**Table 38. Scoring methods used when testing the neighbor emulation theory**

**1. Regular Count**

Simply count the state's prior-adopting neighbors. Example from Figure 27: State D scores 3 (states E, H, and K).

**2. Diminished Count**

First specify a set of counting weights such that the predicted effect of additional adoptions exhibits diminishing returns. For example, one might stipulate that the effect of each additional adoption has half the effect of the previous adoption, as in this set of counting weights: 32, 16, 8, 4, 2, 1, 0.5. If the state has N prior-adopting neighbors, its score is the sum of the first N elements from the set of counting weights. Example from Figure 27: state D, which has 3 prior-adopting neighbors, scores 56 (32 + 16 + 8).

**3. Centrality Measure**

This measure does not restrict itself to a set of neighboring states. Instead, it gauges a state's proximity to the geographical "center of gravity" of a particular policy. To measure the proximity of states, one approach is to use the reciprocal of the mileage between state capitals. A state's score is the sum of such reciprocals for all prior-adopting states. Example from Figure 27: If state D's capital is 1200, 900, 400, and 600 miles from the four prior-adopters, its score would be 0.00611 ( $1/1200 + 1/900 + 1/400 + 1/600$ ).

**4. Regular Proportion**

**5. Diminished Proportion**

**6. Centrality Measure Proportion**

Any of the first three types of scores can be converted to a proportional measure: take the score and divide it by the state's maximum possible score (in other words, the score the state would receive if all relevant states had already adopted the tax). Example from Figure 27: State D scores 0.89 on a diminished proportion measure (56 divided by 63, its highest possible diminished count).

For the scoring methods that depend on a list of neighboring states, the following neighbor criteria were used — individually or in combination with a variety of weighting schemes.

- States that share a border.
- States within 50 miles of each other.
- States separated by no more than one other state.
- States in the same region.

**Table 39. Frequency distribution of average adopter scores for 1922 from Table 40**

<b>Average score</b>	<b>Number of combinations</b>	<b>Cumulative total</b>	<b>P-value</b>	<b>Notes</b>
3.25	4	4	0.00	
3.00	73	77	0.00	
2.75	372	449	0.01	
2.50	1,172	1,621	0.04	
2.25	2,752	4,373	0.11	
2.00	5,013	9,386	0.23	
<b>1.75</b>	<b>7,204</b>	<b>16,590</b>	<b>0.41</b>	<b>1922</b>
1.50	8,190	24,780	0.61	
1.25	7,350	32,130	0.79	
1.00	5,060	37,190	0.91	
0.75	2,600	39,790	0.97	
0.50	915	40,705	0.99	
0.25	200	40,905	1.00	
0.00	15	40,920	1.00	
	<b>40,920</b>			

See discussion in text of Appendix 1.

**Table 40. Testing the neighbor-emulation theory: gasoline tax**

Year or period	Number of cases			Average score		P-value
	At-risk (states)	Adopters (states or state-years)	Non-adopters (state-years)	At-risk or non-adopters	Adopter states	
1919	48	4				-
1920	44	1		0.39	0.00	1.00
1921	43	10		0.56	0.40	0.89
1920-1921		11	76	0.03	-0.18	-
1922	33	4		1.52	1.75	0.41
1923	29	16		1.79	2.25	<b>0.02</b>
1922-1923		20	42	-0.20	0.41	<b>0.02</b>
1925	13	9		2.15	2.00	0.82
1927	4	2		3.50	3.50	0.67
1925-1927		11	6	0.23	-0.13	-
1929	2	2	0	4.00	4.00	-
1920-1927		48	124	-0.04	0.12	0.22

See discussion in text of Appendix 1.

For years of tax adoptions, see Table 26.

The p-values for the t-test method were based on separate variances computation for the following: gasoline tax, 1920-1927; general sales tax, 1933-1938; and the lottery, 1967-1976 and 1967-1994.

**Table 41. Testing the neighbor-emulation theory: individual income tax**

Year or period	Number of cases			Average score		P-value
	At-risk (states)	Adopters (states or state-years)	Non-adopters (state-years)	At-risk or non-adopters	Adopter states	
1911	48	1	47			-
1912	47	1	46	0.09	0.00	1.00
1915	46	1	45	0.17	0.00	1.00
1916	45	2	43	0.31	0.00	1.00
1917	43	2	41	0.56	0.50	0.77
1919	41	2	39	0.81	0.50	0.83
1921	39	1	38	1.00	1.00	0.64
1922	38	1	37	1.08	1.00	0.68
1923	37	1	36	1.11	1.00	0.68
1912-1923		11	325	0.01	-0.16	-
1929	36	2	34	1.17	2.50	<b>0.07</b>
1930	34	1	33	1.27	0.00	1.00
1931	33	4	29	1.42	2.50	<b>0.07</b>
1933	29	6	23	1.66	2.00	0.18
1934	23	2	21	2.09	2.50	0.40
1935	21	1	20	2.24	2.00	0.71
1936	20	1	19	2.30	3.00	0.40
1937	19	2	17	2.47	3.50	0.20
1929-1937		19	196	-0.06	0.59	<b>0.01</b>
1961	17	1	16	2.59	3.00	0.47
1963	16	1	15	2.69	1.00	1.00
1967	15	2	13	3.00	3.00	0.64
1969	13	3	10	3.23	2.67	0.82
1971	10	3	7	3.50	3.33	0.67
1976	7	1	6	3.71	3.00	0.71
1961-1976		11	67	0.06	-0.38	-
1912-1976		42	588	-0.01	0.13	0.20

See Table 40.

**Table 42. Testing the neighbor-emulation theory: corporate income tax**

Year or period	Number of cases			Average score		P-value
	At-risk (states)	Adopters (states or state-years)	Non-adopters (state-years)	At-risk or non-adopters	Adopter states	
1911	48	1	47			-
1915	47	2	45	0.09	0.00	1.00
1917	45	3	42	0.27	0.33	0.62
1919	42	2	40	0.64	1.50	0.11
1921	40	2	38	0.73	0.50	0.78
1922	38	1	37	0.92	1.00	0.63
1923	37	1	36	0.95	4.00	<b>0.03</b>
1915-1923		11	238	-0.02	0.40	<b>0.02</b>
1929	36	4	32	0.97	1.50	0.19
1931	32	4	28	1.22	1.50	0.35
1933	28	5	23	1.64	2.20	0.13
1934	23	2	21	1.91	2.50	0.35
1935	21	1	20	2.05	1.00	0.81
1936	20	1	19	2.35	3.00	0.40
1937	19	2	17	2.53	3.50	0.23
1929-1937		19	160	-0.06	0.46	<b>0.04</b>
1947	17	1	16	2.65	2.00	0.82
1957	16	1	15	2.69	2.00	0.81
1958	15	1	14	2.80	3.00	0.53
1963	14	1	13	2.79	1.00	0.93
1967	13	3	10	3.15	3.33	0.52
1969	10	2	8	3.50	2.50	0.84
1970	8	1	7	3.88	3.00	0.75
1971	7	2	5	4.00	3.50	0.86
1947-1971		12	88	0.07	-0.52	-
1915-1971		43	486	-0.01	0.17	0.14

See Table 40.



**Table 43. Testing the neighbor-emulation theory: cigarette tax**

Year or period	Number of cases			Average score		P-value
	At-risk (states)	Adopters (states or state-years)	Non-adopters (state-years)	At-risk or non-adopters	Adopter states	
1921	48	1	47			-
1923	47	3	44	0.13	0.33	0.34
1925	44	1	43	0.41	0.00	1.00
1927	43	2	41	0.61	0.50	0.72
1929	41	1	40	0.76	1.00	0.49
1931	40	2	38	0.88	0.50	0.78
1932	38	2	36	1.11	2.00	0.19
1933	36	1	35	1.08	3.00	0.11
1935	35	4	31	1.11	0.75	0.79
1936	31	1	30	1.52	2.00	0.39
1937	30	3	27	1.67	1.33	0.72
1939	27	5	22	2.07	1.60	0.88
1923-1939		25	387	0.00	-0.05	-
1941	22	2	20	2.41	2.00	0.76
1943	20	3	17	2.55	2.33	0.66
1945	17	1	16	2.77	2.00	0.88
1947	16	7	9	3.06	3.00	0.61
1948	9	1	8	4.00	3.00	0.89
1951	8	1	7	4.13	5.00	0.38
1955	7	1	6	4.14	8.00	0.14
1958	6	1	5	3.50	3.00	0.83
1959	5	1	4	3.80	2.00	1.00
1960	4	1	3	4.50	4.00	0.75
1964	3	1	2	5.00	7.00	0.33
1965	2	1	1	4.00	4.00	1.00
1941-1965		21	98	0.00	0.01	0.48
1969	1	1	0	4.00	4.00	-
1923-1965		48	485	0.00	-0.02	-

See Table 40.

**Table 44. Testing the neighbor-emulation theory: general sales tax**

Year or period	Number of cases			Average score		P-value
	At-risk (states)	Adopters (states or state-years)	Non-adopters (state-years)	At-risk or non-adopters	Adopter states	
1930	48	1	47			-
1933	47	13	34	0.09	0.00	1.00
1934	34	2	32	1.35	3.00	<b>0.04</b>
1935	32	4	28	1.47	2.50	<b>0.08</b>
1936	28	1	27	1.68	1.00	0.64
1937	27	1	26	1.82	3.00	0.37
1938	26	1	25	1.81	2.00	0.54
1933-1938		22	172	-0.04	0.32	<b>0.04</b>
1947	25	4	21	1.84	1.50	0.69
1949	21	1	20	2.33	1.00	0.81
1951	20	3	17	2.45	1.67	0.82
1953	17	1	16	2.65	3.00	0.59
1955	16	1	15	2.81	3.00	0.56
1947-1955		10	89	0.05	-0.45	-
1960	15	1	14	2.93	6.00	0.13
1961	14	2	12	2.79	3.50	0.33
1965	12	2	10	2.75	3.00	0.49
1966	10	3	7	3.20	3.33	0.51
1967	7	2	5	3.57	5.00	0.14
1969	5	1	4	3.00	2.00	1.00
1960-1969		11	52	-0.14	0.66	<b>0.06</b>
1933-1969		44	313	-0.03	0.23	0.14

See Table 40.

**Table 45. Testing the neighbor-emulation theory: lottery**

Year or period	Number of cases			Average score		P-value
	At-risk (states)	Adopters (states or state-years)	Non-adopters (state-years)	At-risk or non-adopters	Adopter states	
1964	48	1	47			-
1967	47	1	46	0.06	0.00	1.00
1970	46	1	45	0.17	1.00	<b>0.13</b>
1972	45	4	41	0.20	1.25	<b>0.00</b>
1973	41	1	40	0.34	1.00	0.22
1974	40	4	36	0.40	1.25	<b>0.06</b>
1975	36	1	35	0.53	3.00	0.11
1976	35	1	34	0.46	3.00	<b>0.09</b>
1967-1976		13	277	-0.05	1.08	<b>0.00</b>
1981	34	1	33	0.38	0.00	1.00
1982	33	1	32	0.55	0.00	1.00
1983	32	1	31	0.63	1.00	0.44
1984	31	4	27	0.81	1.50	<b>0.10</b>
1985	27	1	26	1.15	2.00	0.44
1986	26	4	22	1.27	0.75	0.87
1987	22	1	21	1.86	2.00	0.59
1988	21	4	17	2.00	3.25	<b>0.05</b>
1981-1988		17	209	-0.03	0.36	<b>0.08</b>
1989	17	1	16	2.06	4.00	0.24
1990	16	1	15	1.94	0.00	1.00
1991	15	1	14	2.27	1.00	0.93
1992	14	2	12	2.57	3.00	0.44
1994	12	1	11	2.92	3.00	0.67
1989-1994		6	68	0.01	-0.05	-
1967-1994		37	554	-0.04	0.55	<b>0.00</b>

See Table 40.

**Table 46. Hypothetical tax system: tax rates required if the lower half of the income distribution were exempted from all taxation**

Population deciles, poor to affluent	Share of adjusted family income (1)	Actual federal, state, and local tax burden		Exempt lower half from all taxation	
		Effective rate of taxation (2)	Government revenue index (3)	Government revenue index (4)	Tax rates required (5)
1	1.3	20.6	0.3	0.0	0.0
2	2.8	20.4	0.6	0.0	0.0
3	4.2	20.6	0.9	0.0	0.0
4	5.5	21.9	1.2	0.0	0.0
5	7.0	22.8	1.6	0.0	0.0
6	8.4	23.3	2.0	2.4	29.0
7	9.9	23.6	2.3	2.9	29.3
8	12.0	25.0	3.0	3.7	30.7
9	15.1	25.7	3.9	4.7	31.4
10	33.8	27.3	9.2	11.1	33.0
<b>TOTAL</b>	<b>100.0</b>	<b>-</b>	<b>24.9</b>	<b>24.9</b>	<b>-</b>

See Appendix 4.

Income distribution and effective tax rates: Pechman 1985, Tables 4-4 and 4-6, Variant 1c.

**Table 47. Regional classifications**

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<b>Census Regions (A)</b>			
1	NEA	Northeast	Divisions 1-2.
2	MWE	Midwest	Divisions 3-4.
3	SOU	South	Divisions 5-7.
4	WES	West	Divisions 8-9.

<b>Census Divisions (B)</b>		
1	NEW	New England
2	MAT	Middle Atlantic
3	ENC	East North Central
4	WNC	West North Central
5	SAT	South Atlantic
6	ESC	East South Central
7	WSC	West South Central
8	MOU	Mountain
9	PAC	Pacific

<b>Sharkansky (C)</b>		
1	NEW	New England
2	MAT	Middle Atlantic
3	SEA	Southeast
4	GRE	Great Lakes
5	PLA	Plains
6	SWE	Southwest
7	MOU	Mountain
8	FWE	Far West
9	NON	Outlying

<b>Sectional, 9-region (D)</b>		
1	NEW	New England
2	MAT	Middle Atlantic
3	BOR	Border States
4	CON	Confederacy
5	GRE	Great Lakes
6	PLA	Plains
7	SWE	Southwest
8	MOU	Mountain
9	FWE	Far West
10	NON	Outlying

<b>Sectional, 4-region (E)</b>		
1	NOR	North
2	SOU	South
3	CEN	Central
4	WES	West

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Also see Appendix 5 and Table 8.

**Table 48. Tax reliance — major categories for each state: 1902-1997**

**Note:** the table continues on 10 subsequent pages.

Data: see Figure 17.

	1902	1913	1917	1922	1927	1932	1937	1942	1948	1952	1957	1962	1967	1972	1977	1982	1987	1992	1997
<b>Alabama</b>																			
Property	83.9	85.8	91.7	88.2	52.5	39.0	20.0	10.3	6.7	6.3	4.9	4.9	4.2	3.1	2.4	2.1	2.1	2.3	2.4
Sales					12.0		53.4	64.7	68.1	67.6	72.3	73.5	70.1	68.9	64.7	61.2	54.0	52.6	52.3
Income							5.3	7.5	11.8	13.2	13.7	12.9	18.2	18.6	24.1	27.6	32.6	33.2	34.9
License	10.5	10.2	8.3	10.1	32.8	52.3	18.7	15.4	11.2	11.3	7.7	2.0	1.9	8.2	7.1	5.6	8.7	9.4	7.7
Other	5.6	4.0		1.7	2.7	8.7	2.6	2.1	2.2	1.7	1.4	6.7	5.6	1.2	1.7	3.5	2.6	2.5	2.7
<b>Arizona</b>																			
Property	98.6	98.0	93.1	94.4	77.1	65.2	23.4	28.3	12.0	12.6	13.7	15.2	14.5	11.5	11.2	7.0	3.3	6.0	3.9
Sales					7.8		56.3	55.3	63.5	62.4	62.1	65.5	62.6	60.8	61.2	55.8	61.2	57.6	57.3
Income							8.0	8.4	16.6	16.0	14.1	10.7	13.7	20.6	20.9	29.8	27.7	30.1	34.4
License	1.4	2.0	6.6	3.8	11.9	33.2	11.5	7.7	7.7	8.7	9.6	6.0	6.3	6.1	6.3	6.8	7.0	5.8	3.4
Other			0.3	1.8	3.3	1.6	0.8	0.3	0.2	0.2	0.5	2.6	2.9	0.9	0.4	0.6	0.7	0.5	1.0
<b>Arkansas</b>																			
Property	91.1	95.9	93.8	87.8	38.4	25.2	16.0	9.5	4.4	0.3	0.3	0.2	0.2	0.2	0.2	0.4	0.3	0.4	0.2
Sales					19.7		62.4	68.5	69.1	70.2	69.6	70.9	65.3	64.7	61.1	53.8	57.3	55.2	53.4
Income						1.9	2.4	5.8	10.2	12.9	12.1	12.7	19.8	22.1	28.8	35.2	34.5	35.5	39.1
License	8.9	3.3	3.3	5.5	32.6	68.8	17.5	13.5	11.8	13.3	13.9	9.4	9.4	10.0	7.8	7.7	6.6	7.1	5.9
Other		0.8	3.0	6.7	9.2	4.0	1.8	2.6	4.5	3.4	4.1	6.8	5.2	3.0	2.1	2.9	1.4	1.7	1.4
<b>California</b>																			
Property	87.4	78.4	73.3	72.9	14.1		5.3	4.4	6.1	6.7	6.6	5.8	5.6	3.9	3.5	3.2	4.7	6.1	5.9
Sales					12.3		60.8	65.4	65.7	61.8	63.1	58.0	56.0	49.9	47.7	44.3	38.5	43.2	40.9
Income							8.2	18.9	16.9	19.8	19.0	24.9	27.3	37.1	41.8	46.3	52.0	44.9	47.2
License	0.1	5.9	8.7	12.6	61.4	88.7	22.8	8.4	8.4	8.9	8.9	6.1	6.2	5.8	4.1	3.8	4.0	4.8	4.8
Other	12.5	15.7	18.0	14.5	12.3	11.2	3.0	3.0	3.0	2.8	2.4	5.2	5.0	3.3	2.9	2.2	0.9	1.0	1.3
<b>Colorado</b>																			
Property	91.4	81.4	72.4	85.1	48.9	34.6	14.1	14.6	7.8	7.0	7.9	3.1	0.3	0.4	0.2	0.3	0.3	0.2	
Sales					26.2		66.3	57.1	62.3	59.4	55.4	47.8	54.9	53.6	51.1	51.7	47.2	42.0	41.2
Income								11.1	15.1	19.0	18.0	33.1	31.0	35.0	38.9	37.9	45.5	49.1	52.6
License	5.8	4.9	5.2	7.9	16.7	58.3	15.5	14.2	11.8	12.0	13.2	7.9	6.7	8.2	6.9	6.3	5.6	6.8	4.9
Other	2.8	13.7	22.4	7.0	8.3	7.1	4.1	3.1	2.9	2.6	5.5	8.2	7.1	2.8	2.9	3.9	1.4	1.9	1.3

	1902	1913	1917	1922	1927	1932	1937	1942	1948	1952	1957	1962	1967	1972	1977	1982	1987	1992	1997
<b>Connecticut</b>																			
Property	88.0	69.8	61.2	65.0	20.9	6.2	13.4	3.6	0.3	0.4									
Sales					11.0		39.0	50.6	67.4	65.0	70.3	72.4	66.5	69.6	72.3	70.5	62.9	50.7	52.2
Income			14.8					17.7	14.2	16.8	13.1	12.2	17.1	18.6	17.9	20.8	25.1	40.6	40.4
License	0.5	5.5	11.5	21.0	57.3	66.6	38.0	19.7	13.5	13.1	9.6	5.3	6.5	6.7	6.5	5.4	5.7	4.7	3.9
Other	11.5	24.6	12.6	14.1	10.9	27.2	9.7	8.3	4.6	4.7	7.0	10.1	9.9	5.0	3.4	3.4	6.2	3.9	3.5
<b>Delaware</b>																			
Property	55.6	63.4	38.7	46.3	33.1		0.9	0.2	0.5	4.1	1.7	0.2	0.2	0.1					
Sales					6.7		28.4	37.3	36.1	38.0	31.3	24.5	23.7	23.6	17.6	14.6	14.5	14.6	14.5
Income				7.5	20.4	5.7	14.3	13.9	12.6	19.1	32.4	47.7	47.8	42.1	50.4	54.2	49.7	46.7	47.9
License	44.2	35.1	33.8	11.1	18.9	24.9	20.2	47.1	44.6	34.2	31.1	5.4	6.3	30.6	27.8	28.1	31.1	33.5	33.2
Other	0.3	1.5	27.4	35.1	20.9	69.4	36.2	1.5	6.3	4.6	3.6	22.1	22.0	3.5	4.2	3.2	4.7	5.3	4.3
<b>Florida</b>																			
Property	72.6	81.1	81.5	77.4	24.1	16.6	5.4	3.5	3.2	2.2	2.0	3.9	2.7	4.0	2.1	2.0	2.3	3.4	3.8
Sales					41.0		59.0	65.7	71.5	76.1	76.0	75.2	75.0	76.2	73.8	75.4	77.1	78.4	76.2
Income														1.4	5.9	6.9	6.1	4.8	5.9
License	27.4	18.9	16.6	21.2	32.5	80.1	31.3	26.4	21.8	18.9	17.9	11.3	12.2	12.3	11.6	7.2	6.7	6.9	6.5
Other			1.9	1.4	2.5	3.3	4.3	4.4	3.4	2.7	4.1	9.6	10.1	6.1	6.6	8.5	7.8	6.5	7.7
<b>Georgia</b>																			
Property	83.8	82.1	85.5	77.0	33.0	21.8	11.1	8.4	5.7	3.5	0.3	0.4	0.3	0.3	0.5	0.4	0.3	0.4	0.4
Sales					29.1		63.6	61.3	58.1	74.5	77.4	75.3	68.8	66.8	59.5	51.7	46.7	48.2	45.0
Income						4.8	10.7	19.1	27.1	17.3	15.2	17.0	24.7	27.4	35.0	44.2	48.8	47.6	50.2
License	7.2	11.2	7.8	17.2	33.2	70.1	11.6	9.7	8.1	4.4	6.7	5.0	4.1	4.8	3.9	3.1	3.2	2.9	3.7
Other	9.0	6.7	6.6	5.8	4.7	3.3	3.0	1.4	1.0	0.2	0.3	2.3	2.1	0.7	1.0	0.6	1.0	0.9	0.8
<b>Idaho</b>																			
Property	79.4	93.9	87.8	88.7	51.3	44.6	13.5	18.0	6.8	6.4	4.7	4.5	0.5	0.4	0.1				
Sales					31.7		46.4	50.4	50.7	43.4	41.4	33.4	50.1	51.0	47.8	41.3	52.9	46.8	47.1
Income							20.5	18.1	29.8	28.2	28.0	37.2	31.7	31.5	39.0	44.7	37.7	43.2	43.4
License	20.5	5.7	11.8	10.4	14.2	53.0	17.8	10.7	11.4	20.1	24.9	15.6	10.1	14.4	12.1	12.9	9.2	8.3	9.2
Other	0.1	0.4	0.4	0.9	2.7	2.3	1.9	2.8	1.2	1.9	0.9	9.4	7.6	2.7	1.1	1.0	0.3	1.8	0.4



	1902	1913	1917	1922	1927	1932	1937	1942	1948	1952	1957	1962	1967	1972	1977	1982	1987	1992	1997
<b>Illinois</b>																			
Property	91.8	81.5	83.1	67.6	49.5	24.6	3.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	1.8	2.1	1.7	1.1
Sales							69.9	81.5	85.0	84.1	81.7	83.4	84.4	58.6	56.7	50.3	51.7	50.1	47.4
Income														29.9	33.8	39.7	37.9	41.2	43.7
License	0.1	5.6	9.8	23.7	42.7	60.9	23.5	14.8	12.4	13.3	15.4	11.3	10.5	9.4	7.8	6.0	7.4	5.9	6.6
Other	8.1	12.9	7.1	8.7	7.8	14.5	3.6	3.6	2.5	2.5	2.8	5.2	5.0	2.0	1.7	2.1	0.9	1.1	1.3
<b>Indiana</b>																			
Property	94.1	98.9	81.9	78.6	40.7	33.2	8.5	8.2	5.5	5.0	5.5	1.7	2.0	1.9	1.1	0.9	0.8	0.1	
Sales					29.6		69.4	72.5	79.0	79.6	76.8	83.7	65.4	65.0	66.2	64.4	59.7	48.9	45.4
Income													22.4	24.8	26.1	28.5	35.3	46.8	51.2
License		1.1	9.6	13.0	22.7	60.5	19.0	17.0	13.5	13.7	15.5	9.5	6.6	6.9	5.3	4.8	3.1	3.0	2.1
Other	5.9		8.6	8.4	7.0	6.2	3.1	2.3	2.0	1.7	2.3	5.2	3.5	1.5	1.2	1.4	1.1	1.2	1.3
<b>Iowa</b>																			
Property	94.8	78.4	64.1	49.0	43.5	30.3	17.0	6.1	0.1	0.1	1.5	1.5	0.8						
Sales					6.0		48.7	59.1	67.8	62.1	64.0	60.2	54.0	52.6	44.3	42.8	46.8	43.4	47.6
Income							7.9	11.2	14.4	13.4	13.1	16.7	26.1	31.5	41.7	43.5	41.5	44.3	41.4
License	0.1	16.2	29.7	46.9	45.9	66.8	24.2	21.2	15.1	22.0	19.1	16.9	14.6	13.1	11.2	9.7	9.6	9.9	9.0
Other	5.0	5.4	6.1	4.0	4.5	2.9	2.2	2.5	2.6	2.4	2.2	4.7	4.5	2.8	2.8	4.1	2.1	2.4	2.1
<b>Kansas</b>																			
Property	100.0	95.6	85.9	91.3	48.3	31.1	21.5	12.1	1.9	5.5	6.7	4.1	2.4	2.1	1.6	1.7	1.5	1.2	1.0
Sales					22.2		41.8	60.6	70.5	66.6	65.3	63.5	57.8	61.5	53.7	49.6	50.9	50.6	47.5
Income							8.8	8.5	13.9	11.1	11.3	15.8	26.7	24.3	34.2	38.7	37.0	36.9	42.6
License			4.0	4.1	24.8	65.3	24.6	17.9	12.6	15.4	15.2	10.8	8.7	10.1	8.5	7.7	6.1	6.2	5.0
Other		4.4	10.1	4.6	4.7	3.5	3.3	0.9	1.2	1.3	1.5	5.8	4.4	1.9	1.9	2.3	4.5	5.1	3.9
<b>Kentucky</b>																			
Property	88.8	83.2	86.3	83.2	44.8	39.1	13.4	11.6	10.8	8.3	7.7	5.7	4.9	3.3	2.8	7.9	7.1	6.7	6.1
Sales					22.5		46.7	59.2	56.1	55.4	49.0	66.3	60.6	63.8	53.7	45.5	44.6	43.8	46.8
Income							8.3	13.6	17.4	22.5	31.2	18.7	26.0	24.4	30.1	30.8	33.7	38.4	36.6
License	11.2	15.2	11.6	14.2	29.2	56.5	29.5	12.6	12.1	11.5	9.3	4.4	3.9	6.0	4.8	4.2	7.3	5.5	6.3
Other		1.5	2.2	2.6	3.4	4.5	2.3	2.9	3.6	2.4	2.7	4.8	4.6	2.5	8.6	11.5	7.2	5.6	4.2

	1902	1913	1917	1922	1927	1932	1937	1942	1948	1952	1957	1962	1967	1972	1977	1982	1987	1992	1997
<b>Louisiana</b>																			
Property	78.7	78.9	76.9	87.1	43.3	34.5	18.7	10.3	7.2	4.6	3.3	3.3	2.8	2.6	0.1	0.7	1.0	0.4	
Sales				13.7			41.2	49.4	55.0	57.2	57.8	47.6	47.4	50.4	49.5	45.4	56.4	50.9	50.8
Income							8.7	9.4	11.5	8.0	7.9	8.7	10.2	16.7	13.3	16.3	18.2	25.9	33.1
License	21.3	17.4	20.7	11.2	39.9	63.4	16.8	12.4	10.9	7.3	8.1	2.8	2.4	7.2	7.1	6.0	10.7	9.7	7.4
Other		3.7	2.5	1.7	3.1	2.1	14.7	18.5	15.3	22.9	22.9	37.6	37.2	23.0	30.0	32.2	14.2	12.6	8.3
<b>Maine</b>																			
Property	96.1	90.6	86.9	77.4	41.2	28.1	28.7	22.1	13.9	11.1	2.0	2.2	2.4	2.1	3.1	2.0	0.6	2.5	2.1
Sales				14.0			31.8	48.3	59.8	66.7	74.8	77.1	79.8	72.5	63.2	54.0	51.9	51.1	47.8
Income														13.3	23.6	33.6	38.1	39.6	43.0
License	1.8	3.7	7.8	16.3	38.2	60.3	33.2	26.0	22.7	19.5	20.1	10.9	9.2	9.4	8.3	8.0	6.8	5.9	5.8
Other	2.0	5.7	5.3	6.3	6.7	11.7	6.4	3.7	3.5	2.7	3.1	9.9	8.6	2.7	1.9	2.4	2.6	0.9	1.3
<b>Maryland</b>																			
Property	74.9	74.7	69.7	75.4	38.4	25.2	20.2	12.8	3.3	1.9	3.6	3.7	3.3	2.9	3.4	3.5	2.5	3.0	2.7
Sales				15.9			39.3	48.6	61.8	56.8	54.8	56.0	52.6	46.9	46.5	43.9	44.4	42.1	43.1
Income							14.4	18.7	24.0	28.3	29.5	33.9	42.0	43.3	47.1	47.3	48.0	47.6	
License	21.6	18.9	21.8	14.5	41.1	61.9	32.8	19.4	12.7	14.3	10.6	7.4	5.8	6.2	4.7	3.7	2.9	4.1	4.1
Other	3.5	6.4	8.5	10.1	4.6	12.9	7.7	4.9	3.4	2.9	2.8	3.4	4.3	2.0	2.1	1.7	2.9	2.7	2.4
<b>Massachusetts</b>																			
Property	80.3	78.2	66.0	53.3	40.1	13.3	30.0	13.3		0.1	0.1	0.1							
Sales							31.1	34.9	36.8	33.6	34.8	34.5	43.8	37.7	40.1	33.4	32.6	31.3	31.7
Income				3.5	1.3	1.3	11.0	17.4	29.9	32.9	34.3	38.4	34.0	54.5	54.1	60.8	61.2	61.5	63.1
License	13.4	7.9	12.5	15.3	33.7	42.4	17.1	27.4	28.8	29.8	25.7	4.5	4.1	4.1	3.0	3.4	2.9	4.2	3.2
Other	6.3	13.9	21.4	28.0	24.9	43.0	10.7	7.0	4.5	3.6	5.2	22.5	18.1	3.8	2.8	2.4	3.3	3.0	1.9
<b>Michigan</b>																			
Property	97.3	95.1	77.9	77.9	54.6	42.9	11.1	7.4	5.5	5.6	4.4	5.7	5.3	3.0	2.4	2.5	2.9	2.8	8.5
Sales				16.7			64.2	69.0	75.3	74.1	68.0	70.4	69.2	51.3	44.7	41.4	41.0	44.2	44.7
Income														33.1	46.6	48.7	49.8	44.1	41.1
License	0.2	2.0	16.3	16.3	23.1	41.4	21.0	21.3	16.0	18.2	17.8	7.6	7.0	11.4	5.1	5.2	5.0	6.5	5.1
Other	2.6	2.9	5.8	5.7	5.6	15.6	3.6	2.3	3.2	2.2	9.8	16.3	18.5	1.2	1.2	2.2	1.4	2.3	0.6

	1902	1913	1917	1922	1927	1932	1937	1942	1948	1952	1957	1962	1967	1972	1977	1982	1987	1992	1997
<b>Minnesota</b>																			
Property	99.7	91.3	92.3	66.2	30.4	24.2	28.4	11.8	5.9	5.3	5.1	6.1	6.2	0.2	0.1	0.1	0.1	0.1	0.1
Sales				10.4		27.5	41.8	43.9	37.2	37.0	34.0	29.3	43.8	39.6	40.2	43.4	45.1	42.6	
Income						8.5	18.9	28.4	29.0	29.4	39.1	48.1	45.0	48.9	49.3	49.3	45.9	48.8	
License	0.1	1.6	2.5	30.2	56.4	71.6	31.3	14.7	12.0	14.6	15.4	11.2	8.6	7.2	6.0	6.1	6.6	7.7	7.3
Other	0.2	7.2	5.2	3.6	2.8	4.1	4.3	12.8	9.9	13.9	13.0	9.5	7.6	3.8	5.4	4.2	0.5	1.2	1.2
<b>Mississippi</b>																			
Property	77.4	82.2	82.6	91.2	41.1	41.8	18.0	6.4	1.3	1.2	2.2	2.0	1.1	0.7	0.4	0.3		0.9	0.6
Sales				19.2		62.6	71.4	70.7	72.0	71.0	73.2	77.9	76.6	72.3	67.9	66.9	67.2	66.4	
Income			0.3	0.5	16.6	7.5	6.5	11.9	13.4	13.9	12.4	10.4	8.9	13.2	18.3	16.0	21.5	23.5	25.3
License	22.6	17.8	16.7	7.0	21.2	45.3	11.3	9.3	7.2	7.0	8.3	4.0	3.5	6.5	5.9	7.6	8.4	6.3	6.6
Other			0.4	1.3	1.8	5.3	1.5	1.0	7.5	5.9	6.2	10.4	8.6	3.0	3.0	8.2	3.0	2.1	1.1
<b>Missouri</b>																			
Property	84.5	65.1	59.9	50.4	23.8	16.0	11.9	5.6	3.9	3.6	3.8	1.4	0.9	0.4	0.3	0.2	0.3	0.3	0.2
Sales				19.9		51.5	63.1	60.2	64.5	63.3	60.1	66.4	57.5	58.2	51.4	53.1	50.4	47.4	
Income			15.6	12.9	9.3	11.6	9.0	17.3	13.8	14.1	21.3	18.0	29.2	31.0	38.2	37.6	40.4	44.1	
License	10.2	27.1	28.0	22.2	36.3	61.5	22.6	20.4	16.5	16.3	17.2	11.0	9.7	11.1	9.3	8.5	8.2	7.9	7.2
Other	5.3	7.8	12.1	11.8	7.2	13.2	2.4	1.8	2.1	1.8	1.6	6.2	5.1	1.8	1.2	1.6	0.8	0.9	1.0
<b>Montana</b>																			
Property	74.0	71.3	69.5	83.4	40.3	31.2	20.1	17.5	7.0	10.5	9.4	9.5	5.5	4.1	5.0	6.4	7.0	17.6	17.9
Sales				12.7		46.1	46.6	50.1	47.7	48.0	44.4	40.6	33.9	26.6	19.4	25.0	19.5	21.0	
Income						4.4	16.7	21.4	20.4	18.8	26.1	34.3	43.5	43.8	35.6	38.5	36.6	37.3	
License	21.8	28.1	26.4	12.2	34.2	60.0	20.1	12.3	15.0	16.3	14.6	6.4	6.4	13.5	8.4	8.7	11.1	11.6	11.6
Other	4.3	0.6	4.2	4.4	12.8	8.8	9.4	6.9	6.5	5.1	9.1	13.6	13.2	4.9	16.2	29.9	18.5	14.6	12.2
<b>Nebraska</b>																			
Property	99.8	97.9	95.8	97.7	54.5	39.1	25.6	24.1	29.0	34.4	32.3	30.2	32.7	0.2	0.5	0.4	0.3		0.2
Sales				26.8		57.2	63.2	58.3	54.4	54.7	54.8	56.0	66.5	56.0	57.1	55.2	52.9	50.3	
Income														20.1	34.7	32.0	35.5	40.0	42.2
License	0.2	2.1	3.6	2.1	17.2	59.5	11.9	9.2	9.9	9.6	10.3	8.2	6.1	12.5	8.2	8.6	8.3	6.5	6.5
Other			0.6	0.2	1.5	1.4	5.3	3.5	2.8	1.6	2.7	6.8	5.2	0.7	0.7	2.1	0.8	0.7	0.9

	1902	1913	1917	1922	1927	1932	1937	1942	1948	1952	1957	1962	1967	1972	1977	1982	1987	1992	1997
<b>Nevada</b>																			
Property	87.6	87.5	89.5	91.8	67.8	52.6	38.1	29.9	19.4	16.3	6.2	3.8	2.8	7.0	6.7	3.2	3.4	2.3	2.0
Sales				12.9		38.8	44.8	57.4	57.1	75.6	76.2	80.9	83.9	78.2	85.5	84.5	84.4	85.8	
Income																			
License	5.8	12.5	10.1	8.0	14.4	43.2	19.6	23.6	22.6	25.0	17.2	13.0	10.3	8.6	14.7	11.3	10.9	11.9	9.9
Other	6.7		0.4	0.1	5.0	4.2	3.5	1.8	0.6	1.7	1.0	7.0	6.0	0.5	0.4		1.1	1.5	2.3
<b>New Hampshire</b>																			
Property	99.4	79.9	71.3	61.3	46.0	31.7	26.2	7.5	5.7	5.4	6.1	3.8	4.1	3.1	3.1	2.3	1.5		0.1
Sales				12.4		34.0	53.2	59.1	55.5	53.5	61.1	61.8	59.3	56.9	46.9	42.0	69.7	50.1	
Income							5.0	4.2	4.8	4.6	3.6	4.1	16.5	19.8	29.1	32.3	13.3	28.5	
License	0.6	9.4	19.9	21.1	35.8	62.9	33.3	29.8	25.9	25.1	25.3	16.1	16.6	16.0	15.7	17.2	13.3	10.9	13.2
Other		10.6	8.8	17.7	5.8	5.4	6.5	4.5	5.2	9.2	10.6	15.3	13.4	5.1	4.5	4.5	11.0	6.2	8.0
<b>New Jersey</b>																			
Property	97.1	93.7	74.3	74.9	58.4	47.1	32.2	22.9	16.9	1.7	1.0	0.6		3.8	2.6	1.1	0.3	0.1	
Sales						31.5	41.5	45.4	56.1	58.0	58.2	67.8	67.4	50.8	50.9	51.7	54.7	49.9	
Income											7.4	7.1	8.8	33.6	36.7	38.9	38.6	42.2	
License	0.1	0.7	8.1	13.4	23.1	33.8	24.5	29.3	31.4	35.2	35.0	18.1	11.7	15.4	9.8	8.7	6.1	4.5	5.1
Other	2.9	5.6	17.6	11.8	18.5	19.1	11.8	6.3	6.3	7.0	5.9	15.8	13.3	4.6	3.2	2.6	3.0	2.1	2.7
<b>New Mexico</b>																			
Property	99.8	98.7	95.6	91.1	55.7	36.1	17.6	13.6	7.2	6.2	6.7	7.1	6.2	4.2	2.7	0.9	0.2	1.0	1.2
Sales				28.1		63.4	60.8	68.7	67.3	65.8	55.4	57.9	61.6	62.9	57.0	57.7	58.4	53.7	
Income						2.3	4.5	5.8	5.4	5.3	9.3	8.8	16.1	9.4	6.1	21.3	23.4	27.4	
License	0.2	1.3	4.4	8.7	15.7	62.8	13.6	16.1	12.8	12.7	13.4	8.9	8.6	7.5	7.0	5.0	5.9	6.1	5.1
Other				0.2	0.5	1.0	3.1	4.9	5.6	8.4	8.8	19.4	18.5	10.5	18.0	31.1	14.9	11.2	12.6
<b>New York</b>																			
Property	65.5	51.4	33.3	54.9	20.6	1.1	3.8	0.5	0.2	0.2	0.2	0.2	0.2	0.2	0.2				
Sales							18.3	38.5	35.3	31.5	30.1	28.4	37.0	40.8	36.9	33.9	31.9	35.4	34.8
Income				12.7	14.2	9.4	29.4	36.7	43.0	50.3	50.5	55.3	48.6	47.0	54.2	60.7	59.3	57.9	59.1
License	19.4	22.5	26.7	9.3	38.4	49.6	28.9	17.2	14.3	12.8	12.9	6.5	5.2	5.2	4.2	3.5	3.0	3.1	2.7
Other	15.2	26.1	40.1	23.0	26.9	39.9	19.6	7.1	7.2	5.2	6.3	9.6	9.1	6.8	4.6	1.9	5.9	3.6	3.4

	1902	1913	1917	1922	1927	1932	1937	1942	1948	1952	1957	1962	1967	1972	1977	1982	1987	1992	1997
<b>North Carolina</b>																			
Property	88.9	98.9	82.4	52.3	3.0	9.3	4.9	2.8	2.1	1.9	2.2	2.5	2.1	2.0	1.6	1.5	1.2	1.2	
Sales					33.1		49.3	54.4	52.7	54.3	56.3	56.1	52.2	54.0	47.3	44.1	40.4	44.1	41.9
Income	1.5		1.6	26.5	23.5	20.0	16.5	22.7	30.5	28.4	26.6	28.2	34.1	33.2	41.4	45.6	50.5	46.9	50.8
License	7.0	0.9	9.3	11.6	36.9	64.6	23.2	19.0	13.8	13.8	13.4	6.4	5.5	9.2	8.2	7.6	6.6	6.7	6.1
Other	2.6	0.2	6.7	9.5	3.5	6.1	6.1	1.1	1.0	1.6	1.4	6.8	6.1	1.6	1.6	1.2	1.2	1.1	1.1
<b>North Dakota</b>																			
Property	99.6	96.7	88.1	78.3	53.5	43.3	20.9	24.8	5.0	8.2	5.1	4.1	2.7	0.9	0.9	0.4	0.4	0.3	0.2
Sales					15.0		59.6	55.1	62.2	60.2	62.1	56.1	58.5	64.6	55.7	41.2	52.3	56.0	57.0
Income				7.5	8.5	3.6	5.4	5.1	16.9	12.2	8.9	12.9	16.6	18.0	25.9	13.7	19.8	22.8	22.4
License	0.4	3.3	9.4	12.7	22.0	52.8	13.9	14.5	15.6	19.1	20.4	17.4	13.6	13.8	11.1	9.1	10.5	8.5	7.2
Other			2.4	1.6	1.0	0.3	0.2	0.5	0.3	0.3	3.5	9.4	8.5	2.7	6.4	35.6	17.0	12.3	13.2
<b>Ohio</b>																			
Property	86.6	76.2	66.9	84.5	21.7	7.8	6.8	3.2	4.4	4.1	4.0	4.5	4.6	3.0	3.0	2.7	0.2	0.1	0.1
Sales					16.1		73.4	75.3	77.5	76.5	76.4	75.0	75.2	69.2	59.7	56.9	50.8	50.1	49.1
Income														11.2	26.1	30.8	39.7	41.7	41.9
License	13.3	23.8	26.3	9.8	53.6	77.5	18.0	20.3	16.7	18.3	18.5	11.2	11.0	15.4	10.4	8.7	8.8	7.4	8.3
Other	0.1		6.7	5.7	8.6	14.7	1.8	1.2	1.3	1.0	1.2	9.3	9.2	1.2	0.8	0.9	0.6	0.7	0.7
<b>Oklahoma</b>																			
Property	99.7	95.2	87.8	84.9	12.6	20.3	1.4												
Sales					20.7		50.7	58.8	61.5	59.2	57.3	55.8	55.6	52.3	43.3	33.4	42.7	41.9	38.3
Income		0.1	3.1	5.9	1.9	1.5	13.0	11.1	11.6	9.9	9.8	14.2	13.5	19.4	25.2	28.8	29.1	36.3	37.9
License	0.3	4.5	3.8	4.7	63.3	75.6	13.9	14.9	12.3	15.3	16.8	13.4	13.3	14.0	11.9	8.7	11.7	10.6	13.8
Other		0.2	5.3	4.4	1.5	2.6	21.0	15.1	14.7	15.6	16.1	16.7	17.6	14.4	19.6	29.1	16.4	11.2	9.9
<b>Oregon</b>																			
Property	98.5	93.4	87.4	67.5	28.9	22.6	7.2							0.5					
Sales					20.1		44.1	42.6	28.1	27.2	21.1	22.6	23.9	24.0	16.4	12.3	13.5	13.2	13.6
Income					0.1		13.2	33.1	55.1	50.6	58.2	52.6	57.5	57.5	67.1	70.4	71.5	71.4	73.9
License	1.2	4.2	9.8	29.6	45.6	71.5	31.8	22.1	14.7	19.7	17.9	15.6	11.2	15.5	13.2	11.3	11.9	12.3	10.4
Other	0.2	2.4	2.8	2.9	5.2	5.9	3.7	2.3	2.1	2.5	2.8	9.2	7.0	3.0	3.3	6.0	3.1	3.0	2.1

	1902	1913	1917	1922	1927	1932	1937	1942	1948	1952	1957	1962	1967	1972	1977	1982	1987	1992	1997
<b>Pennsylvania</b>																			
Property	78.7	78.2	75.3	62.7	32.3		30.8	6.2	0.5	0.3	0.2	0.1	0.1	0.9	1.1	1.3	1.2	1.3	1.1
Sales				8.7		28.8	41.9	49.4	44.1	51.3	66.6	67.4	51.0	50.2	49.6	50.4	44.7	47.6	
Income						11.2	13.8	15.6	23.7	16.7	11.8	13.8	31.4	33.0	34.9	33.1	38.8	36.9	
License	14.6	14.3	14.7	20.2	40.6	55.4	22.1	33.6	28.3	26.5	25.3	6.8	6.6	12.4	11.9	10.6	10.3	10.9	9.9
Other	6.7	7.5	9.9	17.2	18.4	44.6	7.0	4.6	6.3	5.4	6.5	14.7	12.1	4.3	3.8	3.5	5.1	4.4	4.6
<b>Rhode Island</b>																			
Property	95.7	87.8	81.2	64.4	46.0	11.5	19.8								1.3	1.1	0.7	1.4	0.2
Sales				8.7		20.2	56.7	66.4	68.7	71.1	74.0	72.6	58.5	58.1	54.2	50.8	51.0	50.6	
Income							16.1	15.0	12.6	9.8	12.2	31.6	33.0	39.7	42.7	40.3	43.3		
License	4.3	12.2	14.2	17.9	37.4	53.2	53.0	33.4	13.9	12.3	13.1	10.1	8.3	6.8	5.2	3.5	3.6	5.7	4.7
Other		4.5	17.7	7.9	35.3	7.0	9.9	3.6	4.0	3.2	6.1	6.8	3.1	2.4	1.5	2.4	1.7	1.1	
<b>South Carolina</b>																			
Property	98.9	99.3	98.2	83.3	23.4	15.9	13.5	3.4	1.2	1.1	0.5	0.5	0.3	0.3	0.4	0.4	0.3	0.3	0.3
Sales				21.3		55.4	66.7	60.2	71.2	71.8	71.4	65.0	66.4	59.8	54.8	55.1	52.1	50.8	
Income		0.7	1.1	13.9	12.3	9.6	12.7	19.2	29.4	20.1	18.3	19.3	26.8	26.4	33.4	39.5	38.0	39.5	40.4
License	1.1		0.7	2.7	38.1	70.1	17.0	9.6	7.9	6.6	8.1	4.2	3.7	5.3	4.8	4.2	5.3	7.1	7.6
Other				4.9	4.4	1.3	1.0	1.4	1.0	1.3	4.6	4.2	1.6	1.5	1.2	1.4	1.0	0.9	
<b>South Dakota</b>																			
Property	100.0	97.9	79.1	91.3	52.4	45.3	2.1	1.9	0.5	2.2	1.5								
Sales				21.3		72.9	72.2	83.6	84.0	75.2	79.7	81.1	84.3	86.9	86.0	81.0	79.5	79.3	
Income						4.2	4.6	0.4	0.4	0.4	0.8	0.7	0.6	1.3	0.3	5.8	6.2	4.8	
License		1.5	6.7	2.9	24.3	52.0	13.6	13.3	13.0	10.9	19.3	10.5	11.9	13.1	8.8	8.3	8.9	9.9	12.2
Other		0.6	14.1	5.8	2.0	2.6	7.2	8.0	2.5	2.6	3.7	9.0	6.3	2.0	3.1	5.3	4.2	4.4	3.7
<b>Tennessee</b>																			
Property	76.2	82.9	77.8	77.5	29.2	3.5	5.6	2.5	1.2										
Sales				22.7		63.2	67.0	74.4	70.9	72.9	71.5	71.4	70.2	73.9	75.9	77.3	79.2	76.9	
Income						9.0	7.3	11.4	9.0	8.5	10.2	10.3	11.7	11.7	10.2	8.0	9.2		
License	22.1	17.1	16.7	15.5	42.0	90.5	26.6	19.5	14.9	15.4	16.3	9.1	8.6	15.2	10.2	9.6	9.7	10.3	11.2
Other	1.7		5.5	7.0	6.0	6.0	4.7	2.0	2.2	2.3	2.0	10.9	9.9	4.3	4.3	2.8	2.8	2.5	2.8

	1902	1913	1917	1922	1927	1932	1937	1942	1948	1952	1957	1962	1967	1972	1977	1982	1987	1992	1997
<b>Texas</b>																			
Property	68.7	80.5	89.3	87.0	41.2	32.5	20.4	14.9	6.4	8.2	4.9	4.1	4.3	2.4	0.9				
Sales					16.5		47.6	55.3	51.2	45.5	46.4	57.7	61.4	70.1	67.0	62.6	72.1	79.9	79.9
Income																			
License	20.6	10.0	5.5	7.2	37.3	61.1	14.8	12.6	12.9	12.9	16.8	10.0	9.7	13.9	11.6	10.0	16.4	13.3	14.2
Other	10.8	9.4	5.3	5.8	5.1	6.4	17.3	17.3	29.5	33.4	31.9	28.2	24.6	13.7	20.5	27.3	11.5	6.8	5.9
<b>Utah</b>																			
Property	99.8	89.3	85.9	80.3	64.2	49.1	25.7	19.7	15.5	10.8	3.5	8.8	6.6	4.8					
Sales					16.1		49.9	52.3	57.0	57.6	57.7	56.7	54.0	58.4	57.9	54.0	52.3	51.2	50.3
Income						3.9	5.6	11.8	14.0	19.4	23.9	20.8	29.0	28.2	34.5	39.1	41.2	43.2	45.6
License			5.5	15.1	14.1	43.9	17.4	10.2	8.9	8.8	10.2	6.5	5.0	6.5	4.9	4.1	4.8	4.1	3.0
Other	0.2	10.7	8.7	4.7	5.6	3.1	1.3	5.9	4.6	3.4	4.8	7.2	5.4	2.2	2.7	2.8	1.7	1.5	1.1
<b>Vermont</b>																			
Property	88.8	82.5	75.3	72.1	40.0	13.0	12.9	5.0	1.8	1.2	1.0	0.7	0.3	0.2	0.1	0.1	0.1	1.3	1.1
Sales					10.7		33.5	46.3	49.9	39.7	39.0	44.9	41.8	51.7	49.1	45.4	48.4	48.0	45.6
Income						5.7	6.3	12.2	17.7	34.9	32.7	30.7	38.1	33.3	38.0	41.3	41.1	39.5	41.1
License	7.8	12.8	20.1	20.6	40.8	55.6	41.2	31.0	25.7	20.6	21.0	16.2	13.1	10.9	10.0	11.7	8.1	7.7	7.3
Other	3.3	4.8	4.6	7.3	8.5	25.8	6.1	5.5	4.8	3.5	6.3	7.5	6.6	3.9	2.7	1.4	2.2	3.6	4.8
<b>Virginia</b>																			
Property	67.5	71.6	63.7	68.3	29.1	11.2	9.2	7.4	7.0	5.7	4.5	4.3	1.7	1.2	1.1	1.1	0.4	0.2	0.2
Sales					13.1		42.1	54.4	47.7	44.9	37.6	45.6	46.8	50.9	47.7	41.9	41.2	40.7	39.1
Income	1.7	2.2	4.2	12.3	11.6	9.1	9.2	14.3	23.5	28.2	42.3	33.9	38.1	37.3	42.5	50.2	50.0	51.2	53.5
License	23.0	20.7	20.6	14.0	38.9	72.3	34.0	20.6	18.3	17.7	12.8	7.1	8.4	8.1	6.3	5.1	5.8	5.6	4.5
Other	7.9	5.5	11.4	5.4	7.2	7.4	5.4	3.2	3.5	3.4	2.8	9.2	5.0	2.6	2.5	1.8	2.7	2.4	2.7
<b>Washington</b>																			
Property	92.2	72.2	90.4	73.2	56.4	41.6	7.9	5.1	4.3	6.1	6.5	6.9	7.6	11.3	14.4	17.5	15.8	16.4	17.2
Sales					12.6		75.2	81.3	86.2	83.6	83.1	82.9	81.8	79.0	75.7	72.1	75.3	74.9	74.0
Income																			
License	7.7	24.4	7.4	19.2	29.1	55.2	12.5	9.9	7.6	8.7	8.3	5.2	5.1	7.0	5.7	5.6	5.2	5.1	4.5
Other	0.1	3.5	2.2	7.7	2.0	3.2	4.4	3.7	1.9	1.6	2.1	5.0	5.5	2.7	4.2	4.8	3.7	3.7	4.3

	1902	1913	1917	1922	1927	1932	1937	1942	1948	1952	1957	1962	1967	1972	1977	1982	1987	1992	1997
<b>West Virginia</b>																			
Property	53.8	41.8	75.6	72.4	22.0	18.4	4.1	0.3	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Sales					18.5		60.8	78.7	85.6	85.1	86.6	79.0	77.7	73.0	71.7	70.0	61.8	52.0	52.2
Income							3.9	4.4				9.9	9.6	18.8	20.8	23.2	30.8	33.8	35.5
License	34.8	40.7	10.4	17.1	51.4	72.1	17.3	14.5	12.4	13.0	11.5	6.6	8.6	6.8	6.1	5.5	6.0	6.0	5.2
Other	11.4	17.5	13.9	10.5	8.1	9.6	13.9	2.1	1.8	1.7	1.7	4.5	4.0	1.3	1.3	1.3	1.4	8.1	7.1
<b>Wisconsin</b>																			
Property	52.6	83.8	84.5	67.6	18.8	14.9	10.0	13.0	9.1	6.7	6.9	7.9	5.0	5.3	3.4	2.6	1.8	0.7	0.7
Sales					15.1		35.3	33.0	31.3	28.4	30.8	33.5	32.9	42.6	38.5	39.7	43.7	43.9	41.5
Income		1.7	2.3	13.7	23.9	15.4	17.5	33.1	42.9	47.2	46.6	43.1	51.3	43.7	51.1	50.9	47.5	48.4	50.8
License	47.4	4.5	5.6	13.5	35.4	62.2	30.2	17.2	13.7	14.2	12.9	9.7	6.6	6.2	4.9	4.9	5.1	5.7	6.0
Other		10.0	7.5	5.2	6.8	7.5	6.9	3.8	3.1	3.5	2.8	5.8	4.2	2.2	2.1	1.9	2.0	1.2	0.9
<b>Wyoming</b>																			
Property	97.8	96.0	93.6	79.4	49.5	42.2	9.8	6.9	6.5	20.6	18.0	18.4	16.8	9.9	3.9	4.7	15.8	13.6	11.3
Sales					22.8		67.9	73.7	72.8	60.3	59.4	55.1	60.2	67.1	56.8	36.8	33.4	37.0	49.6
Income																			
License	2.2	3.9	3.8	16.9	25.6	55.2	20.1	18.3	19.8	18.5	21.9	18.2	15.2	16.6	17.6	7.1	9.2	10.3	10.3
Other			2.6	3.7	2.2	2.5	2.2	1.1	0.9	0.6	0.7	8.3	7.8	6.3	21.6	51.4	41.7	39.1	28.7



**Appendix 4.**  
**Is the wide distribution of American tax burdens  
a mathematical imperative?**

The information in Table 46, although based on actual 1980 data, should be viewed as it is intended — namely, as a mathematical exercise to convey the rough order of magnitude of the overall tax rates that would have to be imposed on the top half of the income distribution if the lower half of the distribution were exempted from all tax burdens, while still keeping total government revenue constant. The question is relevant because one often hears casual statements to the effect that the sheer size of modern government requires universal fiscal involvement, without which nothing short of confiscatory levels of taxation on the top groups would suffice.

Columns 1 and 2 present the distribution of adjusted family income and actual federal, state, and local tax burdens for each population decile, arranged by income level from poorest to most affluent. This data is based on the most progressive set of tax incidence assumptions used in Pechman's analysis (his Variant 1c). The exercise is not affected significantly by selecting one of Pechman's other variants.

Column 3 provides an index of government revenue: the income share (column 1), multiplied by the effective tax rate (column 2), divided by 100. The values do not correspond to actual dollar figures, but they do accurately convey the distribution, in relative terms, of government tax revenue across the population deciles, given the income distribution and the effective tax rates. For example, the "government revenue" supplied by the tenth decile (9.2) is roughly three times larger than that supplied by the eighth decile (3.0).

Column 4 takes the government revenue supplied by the bottom five deciles (a total of 4.5) and distributes it among to top five deciles, in a fashion paralleling the income distribution.

Column 5 computes the tax rates that would have to be imposed on the top five deciles in order to achieve the revenues implied by Column 4 — that is, in order to keep the overall size of government constant (total of 24.9).

The verdict: a substantial share of the population could be exempted from all tax burdens, and government size could be maintained, without requiring radically higher (or confiscatory) rates of taxation on upper-income groups. The explanation for the wide, nearly proportional distribution of tax burdens in American society (as shown in column 2) is not to be found in mathematical imperatives. The lower parts of the income distribution simply do not control enough economic resources to affect the aggregate fisc in a substantial way.

## **Appendix 5.**

### **The regional classification of the states**

At several points in this study, findings are presented according to various regional groupings of the states. In a classic work in the comparative state politics literature, Ira Sharkansky noted that "although 'region' shows great statistical weight with respect to measures of politics and policy, 'region' by itself is a poorly contrived explanation." The principles for grouping states into regions are hardly clear cut, as evidenced by the brief discussion of regional classification provided here, and as seen even more thoroughly in the numerous regional schemes outlined in Sharkansky's book. More fundamentally, region itself is of little social scientific interest, except in cases where geography or space are integrally involved in the topic under study. Nonetheless, a consideration of regional patterns is frequently a helpful place to begin a quantitative examination in the field of comparative state studies. The variable arguably captures a range of economic, social, political, and cultural features of a state. Such features typically are the focal point of our investigations. Moreover, there are reasons for suspecting that states in geographical proximity will be alike along these dimensions due to their more fundamental commonalities: similar historical settlement patterns, and thus similar ethnic, cultural, or social mixes; similar economic resources and connections to the wider national or global economic structure; similar political histories in the national context; or similar institutional arrangements due to policy diffusion effects, whereby political leaders look to nearby states for policy cues.<sup>1</sup>

In making choices among different regional classification schemes, a logical starting point is the modern Census Bureau grouping, which consists of four regions or, at a

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<sup>1</sup> Quote from Sharkansky 1969a, p. 9. Also see Sharkansky 1969b; Elkins and Simeon 1979; Kincaid 1982; Tucker and Herzik 1986; Elazar 1994.

slightly finer level, nine divisions. The categories evolved somewhat during the twentieth century, but the changes were typically cosmetic (changing the names of the groupings) or modest (combining two small groups into one). This evolution did *not* include more substantial changes, in which a state was severed from former regional mates and grouped with others.<sup>2</sup>

Another classification used in this study is an eight-group scheme suggested by Sharkansky. Most of the differences between this scheme and the Census divisions concern the groupings of southern states: Sharkansky has two large southern regions extending from the Atlantic coast (but not including Maryland and Delaware) all the way to Arizona, while the Census scheme has three southern divisions embracing a smaller range (going only as far west as Texas). As a result, the Census scheme has a large Mountain division running the full north-south length of the country and including Nevada, which Sharkansky groups with the Pacific states. Although numerous quibbles are possible — and there is no single correct scheme — Sharkansky's organization seems intuitively reasonable. For thoroughness I have added a ninth category to Sharkansky's scheme in order to cover the two outlying states, Alaska and Hawaii.

Numerous variants are possible. For example, in studies of politics or policy there are strong reasons for recognizing the long-term historical importance of the divisions and differences that emerged leading up to and following the Civil War — essentially a classification that emphasizes the theme of sectionalism in nineteenth-century politics. Again, the differences between such a scheme and the two already mentioned tend to revolve around the southern states. For example, one grouping would create a region for the border states and another for the Confederacy.

Another regional breakdown used in this study is motivated by similar considerations — namely, to emphasize the historical importance of nineteenth-century sectionalism. This

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<sup>2</sup> See U. S. Bureau of the Census 1994, especially Tables 6-2 and 6-4.

scheme contains just four regions. For most of the antebellum period, states fall into one of two categories, North or South.

These regional classifications are listed in Table 47. For referencing purposes, each system is given a short name and letter identifier. Every region within a particular classification is assigned a numeric code and an abbreviation. Refer to Table 8 for detailed breakdown of these classifications. Because the economic, social, political, or cultural characteristics underlying "region" as a social scientific explanation are typically thought to be of an enduring character, resulting from long-term historical developments, it is helpful to examine regional classifications in a chronological light. For this reason, Table 8 is organized by year of statehood.

## **Appendix 6.**

### **The method used to estimate fiscal values for overall local government in 1913**

The COG data for 1913 provide information for state governments, county governments, and city or town governments with 2,500 or more population. In addition, the latter group is broken down into a few subcategories, as shown here:

- States
- Counties
- Incorporated places with population over 2,500
  - Incorporated places with population 2,500-8,000
  - Incorporated places with population 8,000-30,000
  - Incorporated places with population over 30,000

The missing component is incorporated places *under* 2,500 population. Because of this gap in coverage, the COG report did not offer data for overall local government.

My first effort to create estimates for overall local government was badly conceived. It began by assuming constant revenues and expenditures, in per capita terms, for places above and below 2500. Under this rough assumption, urban-rural population figures for 1913 were used to scale up the available data for incorporated places. However, this method seriously overestimates the fiscal values for overall local government — perhaps by as much as a 30 percent — because the fiscal categories (incorporated places under 2500) and the population categories (urban versus rural) are rather different. Even though both rely on the number 2500 as their threshold, they are not dealing with the same universe. An important share of the rural population falls

completely outside the bounds of incorporated places. As a result, rural population (much of it covered by county budgets) was tending to drive up the local expenditures under this flawed method.

The second method that I used to estimate overall local government seems better, although it is still rough. In addition, evaluating these estimates in historical context is difficult because we do not have local government data again until 1932 — quite a gap. In any case, the method begins with the local government categories available from the COG report for the previous census, 1902. In that year, we have not only overall local government but also governments with populations less than 8,000. The ratio between this subcategory and overall local government is the key to the procedure.

Begin with some nomenclature. All of these variables measure the local government sector, using subscripts to distinguish fiscal values from either 1902 or 1913.

### **1902**

$T_{02}$  Total.  
 $L_{02}$  Small: population less than 8,000.

### **1913**

$T_{13}$  Total.  
 $C_{13}$  County.  
 $R_{13}$  Urban: population over 2,500.  
 $U_{13}$  Rural: population less than 2,500 (we lack this value).  
 $M_{13}$  Small, partial: population 2,500 to 8,000 (but we have this subcomponent).

Our goal is to get an estimate for  $T_{13}$ , and the missing component is  $R_{13}$ . Instead of having  $R_{13}$ , we have only a subcomponent of it,  $M_{13}$ .

$$(1) \quad T_{13} = C_{13} + U_{13} + R_{13}$$

We can compute the ratio mentioned above (call it  $z$ ) for both 1902 and 1913 — that is, the ratio between "small local government" (population less than 8,000) and total local government.

$$(2) \quad z_{02} = \frac{L_{02}}{T_{02}}$$

$$(3) \quad z_{13} = \frac{M_{13} + R_{13}}{C_{13} + U_{13} + R_{13}}$$

The next step is to assume that this ratio remains constant from 1902 to 1913. With this assumption in place we set equations (2) and (3) equal to each other and solve for the missing component ( $R_{13}$ ), which yields the following:

$$(4) \quad R_{13} = \frac{z_{02} (C_{13} + U_{13}) - M_{13}}{1 - z_{02}}$$

The value for  $R_{13}$  can then be substituted back into equation (1) to yield an estimate for total local government.

Finally, note that two values for  $z_{02}$  were computed for each state — one for total revenue and the other for total expenditure. In generating estimates of  $R_{13}$  (and thus  $T_{13}$ ) for particular fiscal categories in 1913 (for example, property tax revenue or education expenditures), the appropriate value of  $z_{02}$  was used, depending on whether the category was an expenditure or revenue item.



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### Datasets

Datasets assembled as part of this study:

**Dataset SLWH19.** This dataset merges information from Dataset SLW19 and Dataset HOLT. It provides state-level data for a few fiscal categories: total revenue, property taxes, and total expenditure. The dataset includes data for the period 1790-1913, with improving geographic coverage over time. See Chapter 2.

**Dataset MH20.** This dataset merges information from Dataset SLW20, Dataset COG, and various reports issued during the first half of the twentieth century by the Census of Governments. It provides revenue and expenditure data for both state and local governments (the latter aggregated to the state level), covering the period 1890-1999. In addition providing data from the underlying sources, the dataset includes harmonized data that use a consistent fiscal classification scheme, facilitating historical analysis. See Chapter 2.

Datasets from the Interuniversity Consortium for Political and Social Research (ICPSR).

**Dataset SLW19.** Sylla, Richard E., John B. Legler, and John J. Wallis. "Sources and Uses of Funds in State and Local Governments, 1790-1915 (ICPSR 9728)." Data file. Inter-University Consortium for Political and Social Research, 1993. Accessed: 2003 ([dx.doi.org/10.3886/ICPSR09728](https://dx.doi.org/10.3886/ICPSR09728)).

**Dataset SLW20.** Sylla, Richard E., John B. Legler, and John J. Wallis. "State and Local Government: Sources and Uses of Funds, Census Statistics, Twentieth Century (ICPSR 6304)." Data file. Inter-University Consortium for Political and Social Research, 1995. Accessed: 2000 ([dx.doi.org/10.3886/ICPSR06304](https://dx.doi.org/10.3886/ICPSR06304)).

**Dataset HOFF.** Hofferbert, Richard I. "Socio-economic, Public Policy, and Political Data for the United States, 1890-1960 [database]." Inter-university Consortium for Political and Social Research [producer and distributor], 197? Accessed: 2001 ([dx.doi.org/10.3886/ICPSR00015](https://dx.doi.org/10.3886/ICPSR00015)).

Other data sources.

**Dataset COG.** State and local fiscal data available from the internet site of the Census of Governments, U. S. Census Bureau ([www.census.gov/govs](http://www.census.gov/govs)).

**Dataset HOLT.** State-level revenue and expenditure data for the period 1820-1902. The data were based on sources such as the reports of state auditors and treasurers and, in some cases, published studies. To my knowledge, the data are not available electronically, but they are published in Holt 1977.

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