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New Taxes and the American States:
The Social Origins of Fiscal Citizenship Debates, 1945-1970

By

Elizabeth West Pearson

A dissertation submitted in partial satisfaction of the

requirements for the degree of

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in

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of the

University of California, Berkeley

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Abstract

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Doctor of Philosophy in Sociology

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Professor Margaret Weir, Chair

Scholars have documented that a new type of fiscal compact took hold in the United States during the twentieth century as taxpayers supported progressive taxation on incomes in exchange for public investments by government aimed at securing widespread prosperity. Yet by focusing primarily on the national level, existing literature examining the link between tax structure and social policy in the United States has missed a key element of American fiscal exceptionalism. By moving to the state level, my analysis finds that very different fiscal bargains, or models of “fiscal citizenship,” developed across the American states between the late 1940s and early 1970s, in many cases dramatically departing from the national model. Indeed, in some states, taxes were understood not as a way to underwrite progressive investments but rather as a means to force groups “escaping” taxation to contribute more toward the cost of government, as a way of preserving an exclusionary social order, or as a tool for purchasing autonomy from federal intervention.

Understanding the factors shaping this period of reforms is critical for strengthening theories of the exceptional American welfare state, particularly since the United States is distinctive in its strong reliance on state-level revenue generation to support social policy expenditures. In this dissertation, I examine what factors were responsible for the development of such diverse fiscal compacts across the American states by undertaking a comparative historical analysis of four key cases of state tax reform: New York, Texas, Georgia, and South Carolina. I find that types of social contracts negotiated between taxpayers and the American states during these critical tax debates depended on the balance of power between labor and business groups and the prevailing racial order in each state.

This dissertation is dedicated to Tarek, whose love was the best part of writing it.

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Chapter One: Taxes, Federalism, and American Social Policy

No issue is more fundamental to understanding American politics and policy than taxation. Tax policy decisions determine how much money is available to fund public priorities, establish how the cost of raising that revenue will be apportioned across different types of taxpayers, and even play a key role in structuring how the benefits of public spending are divided up among American citizens. Yet determining how much revenue should be raised and how the costs and benefits of public spending should be distributed are not merely technical problems that can be solved by pulling out a calculator or turning to a spreadsheet. Rather, these decisions are embedded in profoundly political considerations and deeply informed by historical and institutional contexts. What is the proper role and size of government? What sacrifices can the state can legitimately ask of its citizens? What criteria should we use to determine a “fair” distribution of social costs and benefits?

During the late nineteenth and early twentieth century, public finance scholars argued that studying tax policies provided a crucial lens on how a society answered these important questions. “Fiscal theory, like all social theory,” declared public finance economist E.R.A. Seligman in 1910, “is but an attempt to present an analysis of the living forces at work in industrial society” (1910: 331). A few years later, Joseph Schumpeter put the matter even more colorfully in his essay “The Crisis of the Tax State,” stating: “The spirit of a people, its cultural level, its social structure, the deeds its policy may prepare — all this and more is written in its fiscal history, stripped of all phrases. He who knows how to listen to its message here discerns the thunder of world history more clearly than anywhere else” ([1918] 1991: 101).

In this dissertation, I build upon a growing body of more recent scholarship in fiscal sociology that takes Schumpeter’s and Seligman’s insights to heart by understanding taxation as a social contract between taxpayers and the state. I argue that taxes are not merely a protection payment extorted by coercive rulers — as in Tilly’s (1985) provocative description of taxation and state building in early states — nor are they simply a functional response to the need for more revenue. Rather, taxes are a “concrete instantiation of the social contract that exists between citizens and their state” (Mehrotra 2015: 108). The design of tax policies and the structure of the overall tax system reflect the “collective fiscal bargain” that has been struck between taxpayers and the government in modern society (Martin, Mehrotra, and Prasad 2009: 18). By articulating expectations about who owes what to the state, as well as what activities the state can be expected to perform in return, tax and budget policies lay out the terms of “fiscal citizenship” in a polity (Sparrow 2011; Zelenak 2013; Mehrotra 2008; 2015).

Scholars who study the history of taxation in the United States have charted dramatic shifts in the terms of this fiscal bargain throughout the last century and a half. In the late nineteenth and early twentieth century, a new generation of public finance economists, lawyers, and social activists helped overturn a regressive tax system based

largely on tariffs in favor of a new reliance on the progressive income tax by arguing that taxes were more than merely the cost of purchasing government services or protection. Instead, these activists contended, citizens had the obligation to contribute to the state according to their financial means (with wealthier individuals contributing far more than those with limited resources), and the state had a reciprocal duty to secure an expansive set of social and economic benefits for all its citizens (Mehrotra 2013). Widespread popular support for a major expansion of the federal income tax during World War II, when lower tax brackets were added to cover most households for the first time, also seemed to demonstrate that Americans would embrace relatively high taxes if they were paired with expanded social expenditures that benefited the middle class (Sparrow 2011; Michelmore 2012).

Yet by the 1980s, this American model of fiscal citizenship seemed to be increasingly unsustainable. A resurgent conservative movement discovered the political popularity of a tax-cut agenda during the late 1970s and early 1980s (Prasad 2006; 2012a; Martin 2008;). As taxes became politicized, Americans grew more sensitive to shifts in tax rates and resistance to taxation grew (Campbell 2009). Some scholars have argued that reliance on the progressive income tax, which is highly “visible” to taxpayers because it is often paid in lump-sum amounts once or twice a year, may make revenue generation in the United States particularly susceptible to this type of politicization and spur efforts to hollow out the income tax with exemptions or deductions that benefit specific constituencies (Wilensky 2002; Prasad 2012b). Other scholars have contended that white backlash against the civil rights movement contributed to an identification of social welfare programs with stigmatized racial minorities, reducing support for redistributive taxation and spending (Gilens 1999). Economic growth also slowed during the 1970s, hampering the ability of policymakers to fund generous social programs without raising tax rates. And of course taxes simply took up a larger share of many Americans’ incomes by the 1970s than they had during the 1950s. Inflation pushed household incomes into higher tax brackets, and local property tax reforms also shifted the value of assessments closer to market value, removing the informal protections that many homeowners had received from outdated assessment practices (Martin 2008).

However, in this dissertation I argue that existing efforts to understand shifts in the American fiscal compact over this period are missing an important part of the story. Specifically, because existing scholarship largely focuses on tax policy at the federal level, these theories restrict their attention to only one type of fiscal bargain, at one level of government. Yet between the end of World War II and the early 1970s, major transformations also took place in the tax systems of state governments across the United States. During this period, half of all American states adopted either the personal income tax or the general sales tax, and state-level tax revenues doubled from 5.5 percent of personal income in 1944 to just over 11 percent in 1972. These tax changes

were hotly debated by both policymakers and citizens, who argued over whether new public services were necessary, who should pay for higher costs, and what a “fair” tax policy looked like. To some degree, aspects of these state-level reforms mimicked the fiscal citizenship bargain struck at the national level (Mehrotra 2008; 2013). Like the national government, state governments were now generally expected to do more for their citizens. And citizens were asked to contribute more to support these expanded activities, particularly through broad-based taxes that affected most households.

In other important ways, however, the social contracts of taxation that developed across the American states during this period dramatically departed from the national example. My research demonstrates that only some states emulated the federal bargain in which reliance on a relatively progressive tax structure was linked to public investments designed to underwrite prosperity for all households. In other states, taxes were instead understood as a means to force groups “escaping” taxation to contribute more toward the cost of government, as a way of preserving an exclusionary social order, or as a tool for purchasing autonomy from federal intervention. Even though pro-tax coalitions in different states faced similar revenue pressures and were typically composed of similar types of interests (primarily educators and non-retail business interests), these groups developed a strikingly diverse set of justifications for higher taxes. In turn, these justifications reflected — and also helped cement in place — very different ideas about the role and scope of state government and the fiscal obligations of taxpayers to support that government. Far from producing a convergence around one model of American fiscal citizenship, postwar revenue pressures gave rise to a set of state-level tax reforms that testified to the *plurality* of fiscal citizenship regimes flourishing during a critical period in the development of the American fiscal state. Ultimately, I argue that a fiscal compact guaranteeing an expanded social democratic state in exchange for higher taxation on most American households was never the exclusive — or even dominant — framework for structuring the social relationship between taxpayers and the American state. Indeed, this compact always co-existed with state and local regimes of taxation that covered a larger group of taxpayers and were justified with very different, sometimes contradictory logics.

In this dissertation, I examine what factors were responsible for the development of such diverse fiscal compacts across the American states by undertaking a comparative historical analysis of four key cases of state tax reform: New York, Texas, Georgia, and South Carolina. Each state debated, and eventually adopted, the same type of tax (the general sales tax) during the postwar period, yet the ways in which these sales taxes were justified to taxpayers and the corresponding models of fiscal citizenship that took hold in each state differed substantially. In other words, as a result of the choices of state policymakers during these pivotal decades, what it meant to pay taxes in New York differed qualitatively — not just quantitatively — from what it meant to pay taxes in Texas, Georgia, or South Carolina.

I find that the key causes of variation in the types of social contracts negotiated between taxpayers and the American states during these critical tax debates were: 1) the balance of power between labor and business groups, and 2) the prevailing racial order in each state. Where labor groups were strongest, as in New York, they sharply criticized the regressive nature of the sales tax, which burdened low-income households to a disproportionate degree. In response, pro-sales tax interests were forced to emphasize the public investments that could be secured with new revenues, giving rise to a model of fiscal citizenship that emphasized the link between revenues and spending, highlighted the role of the state in guaranteeing social benefits, and closely resembled the progressive bargain struck at the national level.

In contrast, where business groups were strongest, such as in Texas, tax debates focused on the danger that increased taxes posed to business. Pro-sales tax coalitions emphasized that the sales tax would ensure that all groups — namely, consumers — paid their “fair” share of the tax. In this model of fiscal citizenship, individual taxpayers were expected to shoulder more costs in order to spare business from the burdens of higher taxes, but there was little discussion of the state’s reciprocal obligations to its citizens. Indeed, if state government had a role, it was largely to use these new revenues to strengthen its autonomy from the federal government, allowing it to refuse federal revenues that may come with substantial policy strings.

Finally, where state politics were dominated by racial concerns, as in South Carolina and Georgia in the early 1950s, tax debates took on explicitly racial overtones and the sales tax became a mechanism for securing white supremacy. In this fiscal citizenship regime, white taxpayers consented to higher taxes for the express purpose of equipping a segregationist state with revenue needed to preserve the benefits of “public” services reserved for white citizens. When segregation was threatened by federal courts, these same taxpayers sought to abolish the very idea of public investments and transform the state into a donor to private institutions.

In this chapter, I situate my inquiry in relation to existing sociological scholarship on taxation, state building, and the American welfare state and argue that the United States’ distinctive reliance on state-level revenue generation is a key, overlooked feature of American fiscal exceptionalism. Next, I outline my theoretical framework for analyzing the important fiscal transformation that took place in American public finance between the end of World War II and the early 1970s as a majority of state governments made reforms to their revenue systems. Finally, I detail the approach I use to investigate my research questions, including the rationale for my case selection and my use of comparative historical methods. I close by providing a short overview of how I develop my argument across the remaining chapters of this dissertation.

State Taxes and American Fiscal Exceptionalism

Existing literature analyzing the relationship between public finance and social policy in the United States has largely focused on one particular aspect of American fiscal exceptionalism: the nation's distinctive reliance on the progressive federal income tax. Building on the finding that "worlds of welfare" seem to map onto distinctive "worlds of taxation," with liberal welfare states tending to rely on progressive tax structures while conservative and social democratic welfare states rely on regressive, consumption-based tax structures (Prasad and Deng 2009), scholars have posited that progressive tax reliance may have helped produce a weak American welfare state (see review in Prasad 2012b: 148-153). This literature suggests that reliance on a highly salient, visible tax like the progressive income tax may raise the likelihood of political resistance to taxation (Wilensky 2002), encourage the heavy use of tax expenditures to deliver social benefits through the tax code (Prasad 2012b; see also Howard 1997; Castles 1998; Morgan and Campbell 2011),¹ and hamper a state's ability to adequately fund welfare state programs without distorting the economy (Kato 2003; Lindert 2004).

But if one distinctive feature of American financing of the welfare state is a heavy reliance on the progressive income tax, another key (and overlooked) aspect of its fiscal exceptionalism is the major role played by state-level revenue generation in supporting social policy expenditures. Subnational governments in the United States are responsible for a larger share of overall public expenditures than in many other wealthy countries: 46 percent of total public spending in the United States occurs at the subnational level, compared to an OECD average of 33 percent (OECD 2013).² This high reliance on subnational expenditures is not simply a consequence of the American federal constitutional structure, nor does it reflect state-level discretion over revenue generated by the national government and then shared with the states. While many OECD countries with federal systems — such as Germany, Austria, and Australia — do not expect subnational governments to raise substantial amounts of revenue to support their activities, instead making extensive use of tax sharing or intergovernmental grant systems to funnel centrally-collected revenue to the subnational level, the U.S. system of fiscal federalism is arranged differently. Intergovernmental fiscal relations in the United States are characterized by a high reliance on "autonomous taxes" raised by subnational governments and contain little to no tax sharing. Indeed, among OECD countries, only

¹ These modes of financing social benefits are problematic because they produce a "submerged state" that obscures government's role in funding social benefits (Mettler 2011) and reduces inequality less than comparable levels of direct spending in other countries (Garfinkel, Rainwater, and Smeeding 2006).

² OECD Regions at a Glance (2013). 2010 data for Canada and New Zealand; 2011 data for Australia, Japan, Korea, Israel, Mexico, Switzerland, Turkey, and the United States. No data available for Chile. Gais, Bae, and Dadayan (2007) report that state governments fund 38% of total social spending in the United States. They rely on 2005 data which does not reflect the impact of the 2008 recession or the implementation of the Affordable Care Act.

Sweden and Switzerland have subnational governments that are more dependent on “autonomous taxes” than those in the United States (Charbit 2010: 26).

An Uneven Safety Net

This strong reliance on state-level revenue generation has two major consequences for the United States’ ability to finance a robust welfare state. First, left to their own devices, states make varied choices about the level of taxes and social expenditures they prefer. While the dynamics of fiscal federalism do not necessarily induce a “race to the bottom,” they do allow states to use tax and spending policy to map out divergent growth strategies, producing an uneven scaffolding ill-suited to support a national social safety net. When some states pursue a low-road growth strategy that limits the generosity of social spending in order to keep state taxes low, or rely more heavily on regressive consumption taxes in order to shift costs away from business and high-income individuals, their fiscal choices can even cut against the impact of more progressive policies pursued at the federal level.

Some states are much more limited than others in making ambitious decisions about the size of their investments in social expenditures. Not all state governments in the United States are equally well-positioned to raise the tax dollars that play such a major role in financing the American welfare state. State “revenue capacity,” or ability to raise revenue from local resources, depends on the size and wealth of a state’s tax base and varies substantially across the United States. State per capita personal income — a common way of measuring the total resources available for revenue generation — ranges from a low of \$33,913 in Mississippi to a high of \$60,658 in Connecticut (BEA 2013).³ States with the lowest revenue capacity are clustered in the South, while states with high revenue capacity tend to be populous urban states in the Northeast or rural states with significant mineral deposits, such as Wyoming, North Dakota, and Alaska.

³ A more sophisticated approach to measuring state revenue capacity, developed in the early 1960s by economists Selma Mushkin and Alice Rivlin at the Advisory Commission on Intergovernmental Relations (ACIR), involved the construction of a “representative tax system” that estimated the revenue states *could* raise “if all employed an identical tax system, one which represents the average of currently employed State-local tax structures” (Advisory Commission on Intergovernmental Relations 1962: 9). Mushkin and Rivlin pointed out that per capita personal income is not necessarily the best measure of a state’s ability to generate tax resources since, unlike the federal government, state and local governments rely more heavily on taxes that do not fall directly on income but rather on wealth (the property tax) and consumption (sales and excise taxes) (6-7). Rather than relying on imprecise distinctions between “wealthy” and “poor” states, the ACIR urged focusing on how the size of specific types of tax bases (property values, retail sales, consumption of gasoline, cigarettes, alcohol, taxable corporate income, etc.) varied among states. An updated version of the ACIR’s methodology, using fiscal year 2002 data and including revenue bases for user charges and other non-tax forms of revenue, again found major disparities among state revenue capacities (Yilmaz et al. 2006). With a per capita revenue capacity of \$6,272, Connecticut has almost double the amount of resources to draw on as Mississippi, the state with the lowest per capita revenue capacity (\$3,352) in the nation.

This unevenness has major consequences for social policy. Quantitative research has consistently found that variation in state revenue capacity is strongly associated with variation in state social spending levels (Plotnick and Winters 1985; Mogull 1993; The Lewin Group 2004; Gais, Bae, and Dadayan 2007). Using detailed data on state demographics, researchers at the Urban Institute and the Federal Reserve Bank of Boston estimated how “expenditure needs” for major categories of public spending vary across states. They found that states with high expenditure needs “are generally those with a combination of high poverty rates, a large primary and secondary school-age cohort (age 5 through 17), and high crime rates” (Yilmaz et al. 2006: 24). The top five states with the highest expenditure needs — Mississippi, Louisiana, Arkansas, Alabama, and New Mexico — are all clustered in the southern region of the United States. The researchers also found that revenue capacity and expenditure need are “strongly and negative correlated,” meaning that “the neediest states also have the least amount of own resources available to them” (26-27).

The U.S. federal government does make substantial intergovernmental fiscal transfers to state governments, particularly in the area of social spending, but such transfers are not primarily designed to reduce or eliminate fiscal disparities among states. Only a portion of federal funds flow to states based on measures of need — ranging from cruder indicators such as population size to more detailed factors such as per capita income, poverty rates, or the number of school-age children — and many federal programs also funnel funds to states through the use of matching grants designed to encourage states to spend their own funds on social policy programs. Matching grants tend to reward states that can more easily generate own-source revenues for social spending, thereby exacerbating rather than shrinking inter-state fiscal inequalities.

American reliance on subnational taxation also exposes the financing of social expenditures to substantial variation in state “tax effort,” or how much tax revenue states *choose* to raise as a share of their total revenue capacity. Tax revenue as a share of total personal income (the most common measure of “tax effort”) varies from a high of 24 percent in Alaska to a low of 7.6 percent in South Dakota.⁴ Since tax effort is a function both of a state’s wealth and how heavily it taxes that wealth, high-effort states can include relatively poor states that collect a lot of revenue from taxes on natural resources, as is the case in Alaska. But even states with similar levels of personal income choose to generate different levels of revenue. For instance, Texas and New York are

⁴ Scholars usually calculate tax effort by dividing the total amount of tax dollars a state collects by its personal income, but it can also be calculated with more complex revenue bases such as the representative tax system developed by the ACIR.

both among the wealthiest states in the country but state and local tax effort in New York is 14.3 percent compared to 8.7 percent in Texas.⁵

The United States' heavy reliance on subnational taxation to fund social expenditures also has major distributional consequences. State governments make greater use of regressive taxes on consumption rather than progressive taxes on income or wealth.⁶ And although the *combined* impact of federal, state, and local taxes remains progressive in every state in the U.S., differences in state and local tax structure and reliance mean that low-income taxpayers in some states pay a much higher share of their income in state and local taxes than low-income taxpayers in other states (Davis et al. 2015). These differences in state tax choices can be substantial: six states do not use the individual income tax at all, an additional three states do not levy the general sales tax, and Alaska and New Hampshire include neither of these major taxes in their state revenue systems.⁷ Even among states that use the same types of taxes, different tax rates and structures add up to contrasting profiles of tax reliance. For instance, property taxes make up 19 percent of California's total own-source revenue but only 10 percent of own-source revenue in Alabama. Though both states levy the individual income tax, it provides 21 percent of California's revenue and 13 percent of Alabama's.

Differences in state tax choices create large disparities in the tax treatment of low-income taxpayers across the U.S. states. For instance, in Washington state, which has the most regressive tax structure in the nation, taxpayers in the bottom income quintile pay 17 percent of their income in state and local taxes. Meanwhile, in North Carolina, which raises almost exactly the same level of tax revenue as a share of personal income as Washington, low-income taxpayers pay only 9 percent of their income in state and local taxes. Rich taxpayers are also treated differently from state to state. State and local tax revenue amounts to roughly the same share of personal income in New York (14 percent) and Wyoming (13 percent), but taxpayers in the top 1 percent of the income distribution in New York pay 8.1 percent of their income in state and local taxes compared to only 1.2 percent for the same group in Wyoming (Davis et al. 2015).

⁵ Total personal income in New York is 94 percent of total personal income in Texas. Yilmaz et al. (2002), on the other hand, calculate that Texas' total revenue capacity is 92 percent as large as New York's revenue capacity. Still, they find that New York has an above-average revenue effort (ranking second in the country) while Texas has a below-average revenue effort (ranking 37th in the nation).

⁶ Across all states, the Census Bureau reports that the general sales tax contributes 24 percent of total state-local own-source revenue, property taxes make up 22 percent, individual income taxes contribute another 15 percent, and selective sales and excise taxes comprise 8 percent of total revenues (Survey of Government Finances 2012).

⁷ States without the individual income tax are: Florida, Nevada, Texas, South Dakota, Washington, and Wyoming. States without the general sales tax are: Delaware, Montana, and Oregon.

Incubating Alternative Understandings of Fiscal Citizenship

But a second major consequence of the U.S. system of fiscal federalism and its prominent role in financing the American welfare state is that it sustains a large set of alternative venues where diverse ideas about the proper role and size of government can flourish. While some states have historically embraced the idea that wealthy citizens should pay more toward the cost of state government, others have repeatedly doubled down on tax choices that shift more costs onto low-income households. Indeed, precisely during the post-World War II period that is typically viewed as a long era of liberal dominance, many states fashioned regimes of fiscal citizenship that explicitly emphasized forcing racial minorities or poor households to pay their “fair share” of taxes or sought to fence off state fiscal decisions from federal influence.

Weir (2005) has argued that states “provided congenial political homes for the opponents of liberalism in the decades after the New Deal.” The American system of fiscal federalism, in other words, allowed “the ‘losers’ in the political conflicts over active government during the New Deal” to “continue to thrive in subordinate or less political arenas, offering them time to regroup and fashion alternative channels of power” (160). The states were particularly friendly to political activists who opposed the new fiscal bargain consolidated at the federal level that relied heavily on the progressive income tax. Martin (2010; 2013) has shown that state-level anti-tax organizing, including efforts to call a constitutional convention to repeal the Sixteenth Amendment authorizing the federal income tax, was surprisingly successful and persistent during the postwar period.

My research on the diverse justifications for the sales tax developed by state-level pro-tax coalitions during these decades also helps demonstrate that American fiscal federalism fosters a constant wellspring of political challenges to the idea that progressive income taxation, paired with a generous social welfare state, is a shared ideal. Alternative ideas of fiscal citizenship — of what it meant to pay taxes and what reciprocal obligations were established between state and taxpayers through tax payments — developed and deepened between the late 1940s and early 1970s as state governments reformed their tax systems. Though these alternatives were not always visible to federal policymakers, or viewed as dangerous political challenges to the fundamental fiscal compact supporting the federal income tax, this would begin to change during the late 1970s when anti-tax activists gained the upper hand.

Fiscal Federalism in the Postwar Era

The postwar period was a key juncture in the development of these aspects of American fiscal exceptionalism. As I describe in greater detail in Chapter Two, debates over the use of tax sharing that began in response to the state fiscal crisis triggered by the Depression continued during the 1940s as public finance experts and lawmakers engaged in ambitious postwar planning efforts. However, proposals to radically

restructure intergovernmental fiscal relations — either through tax sharing, other equalization measures, or allocating different tax sources to different levels of government — never gained substantial traction during the postwar period. Instead, policymakers deepened the use of federal grants-in-aid, which funneled dollars to state and local governments for specific types of expenditures but were usually not distributed with the goal of equalizing fiscal resources across states. Because many of these grant programs required state matching funds, they reinforced a reliance on state own-source revenue generation and tended to be most accessible to wealthy states with fewer resource constraints.

Additionally, the decades following World War II were significant because the major state tax reforms that took place during these years had enduring effects on the shape of the subnational American fiscal state. State-level tax reform in the United States has occurred in two broad bursts during the twentieth century. In the first wave of reform, between 1911 and 1938, states turned to the individual and corporate income tax to capture new forms of wealth being generated by industrialization. States also embraced the general sales tax in large numbers during the Depression to cope with declining state revenues and meet matching requirements to access federal relief funds. Despite the flurry of reforms that occurred during the Depression, most states entered the postwar period using only one of the two major taxes that today make up the bulk of state revenues.⁸ The second major round of state tax reform in American history took place during the postwar period, between 1946 and 1971, when states added any “missing” major taxes to their revenue systems and improved their assessment and collection practices to professionalize tax administration. These decades between the late 1940s and the early 1970s were some of the most active in the history of state revenue policymaking. Half of all states adopted at least one major new tax between the late 1940s and early 1970s, with 19 states doing so in the single decade between 1960 and 1971. The tax effort of American states doubled in real terms over these years, with tax revenues growing from 5.5% of personal income in 1944 to just over 11 percent in 1972.

These decades were particularly consequential for the composition of state tax systems. While policymakers have made various changes to tax rates over the past several decades, the major building blocks of state tax systems hammered out during the postwar decades have remained virtually untouched since the early 1970s. Research on the determinants of tax structure and effort in the American states repeatedly emphasizes that the biggest influences on the shape of state tax structures are the early choices of policymakers in designing these structures. Later generations of politicians prefer to build upon existing revenue instruments rather than innovate by adopting

⁸ By the end of World War II, 32 states made use of the individual income tax and 24 states used the general sales tax, but only 15 states used both these taxes.

new taxes (Hansen 1983). This bias has been made particularly clear during the late twentieth century; the repeal or adoption of a major tax has been almost unheard of since 1971, despite the fact that eleven states still lack one or more of the major taxes (individual income tax, property tax, and general sales tax) commonly employed by state governments.

Theorizing Fiscal Transformations

Although literature on the state-level fiscal transformations that took place between the late 1940s and early 1970s is scarce, scholars writing about late-twentieth-century shifts in American taxation and government more broadly have offered four main explanations for these changes (see Table 1, below). The first approach sees taxation primarily as a functional response to the need for revenue, in which episodes of national crisis, often related to war, produce adjustments in tax reliance or increases in overall tax effort. In this view, the shape of the American tax state in the postwar period is the result of increased reliance on the progressive federal income tax in order to fund U.S. involvement in World War I and World War II (Pollack 2009; Sparrow 1996; see discussion in Mehrotra 2013: 22-23). This literature draws on work by scholars of European state building processes, who have demonstrated the ways in which “war makes states” by spurring the need for additional revenue and driving the development of bureaucratic capacity (Brewer 1988; Tilly 1992).

Because state governments in the United States are not responsible for large-scale military expenditures, the relationship between revenue generation, state building, and war at the state level is indirect at best. However, prosperity can also generate crises that stoke the demand for revenue; other scholars have argued that the growth of the public sector following World War II can be understood as a functional response to the increasing complexity of urban, industrial societies, which stimulate the need for more active government management and give rise to public demands for services. According to this perspective — often associated with nineteenth-century German economist Adolph Wagner, whose work helped develop “Wagner’s Law of Rising Public Expenditures” — tax increases are understood a consequence of social and economic modernization (Peacock and Wiseman 1961; Lowery and Berry 1983; Garand 1988). State-level tax increases may particularly be associated with the growth of federal grant-in-aid programs, which initially lower the state-level cost of expanding public services but translate into higher state taxes in the long run as federal dollars disappear but programs are not rolled back (Chamberlain 2013).

Functionalist explanations are helpful in identifying the types of critical junctures that spur the development of public finance systems, but they have been criticized for a limited ability to explain cross-national (let alone subnational) variation in tax structures or to account for the more finely-grained timing shifts in tax policy that may occur outside the scope of crises (Martin, Mehrotra and Prasad 2009: 8). More importantly,

however, structural explanations for tax increases rarely focus on the political and cultural processes through which popular support for higher taxes is generated. While war or other types of crisis (including budget deficits caused by rising demands for public services during times of peace and prosperity) may provoke the need for revenue generation, they do not automatically produce legitimate justifications for higher taxes. Indeed, as the work of scholars such as James Sparrow (2011) and Carolyn C. Jones (1989; 1996) demonstrates, state builders must undertake substantial moral and organizational work to render the revenue needs of “war making” legible to ordinary Americans who are being asked to foot the bill. The same barriers confronted tax advocates at the state level who sought higher revenues to fund investments in public education and other government services during the postwar period; arguably, their task was made even more difficult by the fact that population growth and economic expansion do not take on the same existential urgency as foreign military threat. Understanding how state governments mobilized popular support for higher taxes requires looking beyond merely the structural factors that created the demand for revenues and asking how these state-level state builders crafted justifications for new taxes.

Table 1: Alternative Explanations for State Fiscal Transformations

<i>Type of Explanation</i>	<i>Revenue changes driven by:</i>	<i>Limitations for addressing state-level tax changes during postwar period:</i>
Functionalist	State’s need for revenue, often related to war or national crisis	Difficulty explaining cross-state variation in tax reforms, limited focus on moral work of fiscal mobilization
Progressive Reform	Changing ideas about taxation and the role of the state, frequently championed by progressive reform movements	Many tax reforms during post-war period involved adopting regressive sales taxes, often with support of business
Elite Extraction	Policymakers’ desire to extract revenue from reluctant public or efforts by interest groups to turn tax policy to their own ends	Elites not unconstrained in their ability to shape policy, limited focus on moral legitimation work of justifying taxes

A second body of scholarship takes on this challenge more directly by arguing that shifts in public finance systems are the product of the spread of new ideas about

taxation. The viability of new ways of thinking about taxes are intimately tied to the efforts of progressive reform movements concerned with democracy and social justice, as well as the work of public finance experts and other policy entrepreneurs to translate these ideas into laws and administrative procedures (Mehrotra 2008; 2013). This approach draws on elements of an older, progressive historiography of taxation that argued the development of direct taxes on income during the late nineteenth and early twentieth century represented the achievement of social democratic ideals (see Mehrotra 2013: 27-29 and Brownlee 2004: 251-253 for reviews of this literature). By drawing together the role of social movements, policy experts, and ideas, this literature directs attention to the social factors shaping the development of tax systems and traces links between new ways of understanding taxes and the legitimation work undertaken by groups and individuals seeking tax reform. Scholarship that does consider tax politics at the subnational level tends to assume that fiscal reforms in states and localities followed in the national mold and replicated national logics of fiscal citizenship (Mehrotra 2008; 2013).

One drawback of this literature is that its empirical focus has been limited to the early twentieth century, when reformers pioneered the use of progressive taxes on income at the state — and then federal — level in the United States. However, the state fiscal transformations of the mid-twentieth century differed from these earlier reform movements in key ways. Because the majority of states adding major new taxes to their revenue systems after World War II adopted the sales tax, postwar tax shifts in many ways repudiated the goals of earlier reformers, who had championed progressive taxes on income (see Table 2). Pro-tax coalitions during the 1950s and 1960s were often led by advocates for education funding reform, which tended to be agnostic about the form of new taxes and more concerned with the goal of generating additional revenue for schools through whatever means possible. Furthermore, they were often joined in coalition by business groups whose main goal in promoting broad-based taxes was to shift the costs of government onto consumers and households and away from business and industry. At the national level, public finance experts who championed revenue sharing policies or encouraged states to increase their tax effort saw these goals as part of a portfolio of Keynesian macroeconomic management strategies, rather than as a social-democratic struggle. In this sense, understanding the relationship between reform efforts, policy entrepreneurs, and ideas about taxation during the second half of the twentieth century requires analyzing the many ways in which these movements were very different from earlier, progressive tax reform coalitions.

A third group of scholars contends that tax policy should be understood primarily as the result of elite efforts to extract revenue in ways that minimize popular resistance. While rulers have every incentive to maximize revenues, citizens have an interest in minimizing tax payments. This conflict of interest leads political elites to employ a number of techniques designed to lower the visibility of taxation or obscure

its redistribution to minority interest groups (Martin, Mehrotra, Prasad 2009: 8-10). Scholars who analyze the complex, “submerged” features of the American state, which delivers social benefits through the tax code rather than through direct spending programs, often point out that such choices may be motivated by a desire to hide public expenditures (Howard 1997; Mettler 2011). This literature shares features with research on whether “fiscal illusion” strategies were partially responsible for the growth in government (including at the state level) during the postwar period. The broader idea that policy elites deliberately craft tax policies — whether tax cuts or tax increases — to present costs and benefits in strategic ways that help mobilize popular support motivates many recent analyses of American tax politics (Hacker and Pierson 2005; Martin 2010; Pearson 2014). According to this perspective, the choices of state lawmakers in need of higher revenues during the postwar period can largely be understood as attempts to woo or trick reluctant publics into contributing more to the cost of government (or, in some cases, into supporting regressive tax cuts).

A related perspective identifies interest groups as the key actors shaping the development of tax policy, primarily to serve their own, minority ends. Scholars have argued that business groups have particularly powerful influence over state governments because companies can threaten to relocate to another state if tax or regulatory costs are not reduced. Theories of fiscal federalism, often the predominant paradigm for interpreting state-level tax choices, argue state governments in a federal system will avoid raising taxes needed to support social spending as a consequence of interstate pressure to attract business investment (Oates 1972). Fragmented institutional environments strengthen the political power of groups opposed to redistributive social policies by allowing them to threaten exit if local governments do not reduce regulatory burdens (Pierson 1995: 453). Sub-national jurisdictions therefore find it particularly difficult to engage in redistributive policy and will tend to “‘innovate’ only in the direction of diminished effort” (457).

This literature contains a welcome focus on the role of policy elites — particularly interest groups — in shaping popular opinion about taxation. At the same time, it is important to remember that political elites are not unconstrained in their ability to shape views of tax policies. Policy designs or constitutional arrangements do not produce automatic political effects. Instead, the sociopolitical context in which elites design policies or mount campaigns to support or oppose taxes determines the material and rhetorical resources available to these actors. At times, this literature also tends to focus more on the strategic policy crafting work of political elites and less on the moral work involved in justifying why new tax policies are legitimate or beneficial.

A Social Organization Theory of Fiscal Mobilization

In this dissertation, I introduce a social organization theory of fiscal mobilization that extends and reformulates existing theories of how state builders generate popular

support for revenue generation. My analysis builds on a growing body of scholarship on “fiscal sociology” that treats taxation as a social contract between taxpayers and the modern state (see review in Martin, Mehrotra, and Prasad 2009; Mehrotra 2015: 108). First and foremost, this approach recognizes that taxpayer consent is the result of a social and political negotiation. As Martin, Mehrotra, and Prasad (2009) write: “taxation cannot be explained only as illusion or coercion, but should be seen instead as a collective fiscal bargain in which taxpayers may surrender resources willingly if they believe that those taxes fairly reflect the cost of providing for the public good” (18). Literature in this vein demonstrates that securing popular support for higher taxes requires the state to engage in a process of “fiscal mobilization” involving both moral and organizational components (Lieberman 2003; Sparrow 2011; Mehrotra 2008; 2013; Lainer-Vos 2013). States must develop the bureaucratic capacity to assess and collect revenue, but they also must legitimate revenue generation and secure taxpayer compliance with the new fiscal regime by developing narratives testifying to the public benefits that will be secured by higher taxes and the fairness of new costs. Second, approaching taxation as a social contract also means recognizing the ways in which taxes themselves shape social and political identities. Taxes draw distinctions among groups, delineating who is and is not a “taxpayer” and creating categories of taxpayers that correspond to specific costs and benefits. Through tax policy, “the state codifies central cultural categories of a society and imbues them with the force of law and the power of economic incentives” (Martin, Mehrotra, and Prasad 2009: 23).

My analysis contends that postwar debates between taxpayers and policymakers were about more than the proximate costs and benefits of higher taxes. Rather, these debates should be seen as negotiations over the conditions of the social contract between citizens and state governments, or over the terms of “fiscal citizenship” in the American states. In some respects, scholars who use the phrase “fiscal citizenship” do so simply in order to indicate that taxes — far from merely being a technical instrument for extracting revenue — are in fact deeply embedded in social and political relations. Referring to taxpayers as “fiscal citizens” or to tax arrangements as regimes of “fiscal citizenship” signals that taxation is a key site where relationships between citizens and the state are expressed and given meaning. As Zelenak (2013) explains, “[f]or most of the people most of the time, the most prominent and meaningful connection with the federal government is through the income tax”; as a result, taxation plays a key role in “defin[ing] and mediat[ing] the relationship between citizens and the federal government” (4). Paying taxes, Mehrotra (2015) writes, “is a concrete instantiation of the social contract that exists between citizens and the state.” As such, taxes “not only formalize our obligations to each other as members of an ‘imagined community’ or as a product of ‘the political imaginary’ but they also signify who is a member of such a community. They help us determine how wide we draw the circle of ‘we.’ And, in the process, taxes define the economic duties and obligations that come with

citizenship” (108). In short, by referring to tax arrangements as regimes of “fiscal citizenship,” scholars often seek to draw attention to the many and profound ways that taxation organizes relations between citizens and the state.

However, in other respects, scholars’ use of the term “fiscal citizenship” is linked to more specific historical associations or normative meanings. The very idea of taxation as a social contract is closely identified with the rise of what Brownlee (2004) calls the “democratic-statist tax regime” of the early twentieth century (58). During this period, highly progressive taxes on the income of wealthy individuals and corporations became a dominant source of federal revenue, displacing the regressive tax system of the nineteenth century, which had relied heavily on state and local property taxes and federal excise taxes. As Mehrotra’s (2013) analysis demonstrates, the claim that tax payments establish reciprocal obligations between taxpayer-citizens and an interventionist state was in many respects a historical invention, born out of the efforts of public-finance theorists, lawyers, and social activists who pursued progressive tax reform during the early decades of the twentieth century. Policymakers’ embrace of progressive income taxation “redefined the social meaning of modern citizenship” by codifying the expectation that wealthy citizens had a duty to fund public services and that the state had the duty to provide a more expansive set of public goods (2013: 11). In contrast, Mehrotra describes the regressive tax system of the nineteenth century as embodying a “narrow, market-oriented view of fiscal citizenship” (63-64). Adherents of the older, nineteenth-century “benefit theory” of taxation viewed taxes simply as the “price that individual citizens paid in exchange for the benefits of government protection,” rather than as a nexus of mutual obligation between state and citizen (61). For these thinkers, Mehrotra claims, “a robust notion of fiscal citizenship remained relatively foreign” (63). The fiscal relationship between taxpayers and the state was more “akin to a commercial transaction,” Mehrotra writes. “Members of a polity had no social obligations or civic duties beyond the quid pro quo of paying taxes and receiving governmental protection. [. . .] Citizenship itself was reduced to a commodity” (64).

Scholars have also emphasized the importance of the expansion of the income tax from a “class tax” into a “mass tax” during World War II in further shaping ideas about taxpaying as a democratic obligation that enables claims on an activist state (Jones 1989). During the 1940s, the wartime need for revenue prompted the Roosevelt administration to expand the income tax beyond only the wealthiest taxpayers to cover most American households for the first time. While fewer than four million Americans paid the federal income tax in 1939, this number leapt to 42.6 million by 1945, and by the end of the war a full ninety percent of the American labor force filed a tax return, even if not every filer owed taxes (Brownlee 2004: 115). The development of “mass fiscal citizenship” tied Americans to the state in new and powerful ways; in exchange for financing a substantial share of wartime expenditures and sustaining high levels of

federal spending during the postwar decades, taxpayers looked to the state to guarantee prosperity, economic growth, and a rising standard of living (Sparrow 2008: 277, 281).

Finally, in some accounts, the idea of “fiscal citizenship” is tied to normative, even nostalgic, ideas about the social and political effects of taxpaying. In his book *Learning to Love Form 1040: Two Cheers for the Return-Based Mass Income Tax*, Lawrence Zelenak celebrates the preparation and filing of federal income tax returns as a “ceremony of fiscal citizenship, analogous to voting as a ceremony of political citizenship” (2013: 17). Fiscal citizenship itself, for Zelenak, is best understood as a “relationship of reciprocal duty and right” (23). Individuals are obligated to contribute toward the costs of government (or, in the case of poor households, are simply obligated to work to support a family), and in return they are granted the right of membership in a civilized society. Zelenak identifies two activities that “perform” or “exercise” fiscal citizenship: “contributing one’s appropriate share [. . .] to the financing of the political community of which one is a member” and becoming informed and involved in government tax and spending policies (17). He argues that the use of a returns-based filing system enhances both aspects of fiscal citizenship by heightening Americans’ tax consciousness, “call[ing] the taxpayer’s attention to his status as a taxpayer and a purchaser of civilization in a way that would be impossible under a returns-free system” (4).⁹ Ultimately, for Zelenak, the term “fiscal citizenship” is less a reference to the social embeddedness of taxation than it is a shorthand for a civic ideal of taxpaying, in which engaged, well-informed citizens proudly contribute to the costs of government in order to fulfill their civic duty as a member of a democratic society.

My analysis takes a different approach. I use the term “fiscal citizenship” in its broader sense, to refer to the ways in which taxation reflects and constitutes relationships between citizens and the state, not to any specific fiscal bargain implied by reliance on the progressive federal income tax or the use of a returns-based filing system. I assume that all types of tax regimes both express and help constitute ideas about how the costs of government should be distributed among members of a polity, what guarantees these contributions should secure, and who should benefit from public investments. That is, all tax regimes embody ideas of fiscal citizenship, even if some of these visions of citizenship are more inclusionary, reciprocal, or progressive than others. My analysis particularly emphasizes the ways in which taxation can just as easily inaugurate regressive, exclusionary, or undemocratic relationships as it can liberal or democratic ones.

⁹ Zelenak is quick to acknowledge that for most Americans today, filing an income tax return is far from an enjoyable or patriotic experience. He offers three main recommendations aimed at remedying the painful process of taxpaying: substantially simplifying the filing process, allowing tax agency reconciliation for taxpayers who claim the standard deduction, and creating a centralized online database for taxpayers to retrieve all the information necessary to fill out their tax returns.

Indeed, even when not couched in the language of “fiscal citizenship,” scholarship has repeatedly demonstrated how tax systems reflect and reproduce racial differences. For instance, in Lieberman’s (2003) account of how racial and regional cleavages produce divergent levels of taxpayer compliance, he argues that the equation of “whiteness” with social citizenship in South Africa encourages high-income white taxpayers to participate in a tax regime that will redistribute fiscal resources to poor whites, preventing them from “‘sink[ing]’ to the level of blacks or ‘natives’” (4). Meanwhile, in Brazil, where inter-class solidarity is fractured by regional divides and official efforts to deemphasize racial difference, the government struggles to generate revenue from upper-income taxpayers who resist progressive taxation. Walsh (2010) has also demonstrated that although black taxpayers and activists made citizenship claims on the basis of their taxpayer status during southern debates over segregation, the equation of tax payments with citizenship “would return to haunt future attempts to secure equal education for poor children of color” because it allowed citizenship to be “defined in terms of wealth, in terms of who pays ‘more’ and who pays ‘less’” (194).

Additionally, departing from existing accounts, I argue that multiple regimes of fiscal citizenship can and do operate simultaneously at different levels of government and across taxing jurisdictions. Rather than agreeing that one regime of fiscal citizenship (the “benefits theory” of taxation) was simply replaced by another (the progressive “faculty theory” of taxation) during the twentieth century as federal and state governments gradually became more reliant on the mass income tax, I assume that both these types of regimes remained alive and well in the United States, even if their relative importance may have shifted at the national level. After all, the benefits theory of taxation did not disappear so as much as it was demoted — in importance at the federal level and also down to the state level, where it continues to flourish. Scholars have noted how successive tax regimes do not displace the regimes that came before, but rather layer on top of each other (Mehrotra 2013: 14-15). Notwithstanding their dramatic transformations during the first half of the twentieth century, state and local revenue systems remain highly dependent on consumption taxes and user fees. No state in the country has a truly progressive tax system in which the wealthiest taxpayers pay a higher share of their income in state and local taxes than do the poorest taxpayers (Davis et al. 2015).¹⁰

In other words, I argue that American taxpayers belong to several overlapping — and sometimes contradictory — fiscal citizenship regimes in which taxes are justified differently, are seen to guarantee different types of public benefits, and reflect different settlements around how the costs of government will be distributed. By focusing on fiscal mobilization processes at the state level, during a critical period in the

¹⁰ The report identifies California, Vermont, Oregon, Montana, the District of Columbia, Minnesota, and Delaware as having the least regressive tax systems in the country, but even in these states some low- or middle-income groups pay a higher share of their income in taxes than wealthy taxpayers.

development of state revenue systems, my analysis asks how the tax bargains forged in these overlooked venues may have profoundly shaped Americans' relationship to the state.

Understanding taxation and fiscal mobilization in this manner has several concrete implications for my analytical strategy. First, because I assume that political elites will have to undertake substantial moral work to justify taxes to various constituencies, I analyze tax debates in order to understand the *terms of the bargain* that tax advocates negotiated with taxpayers. I pay particular attention to the language used by tax advocates to promote new taxes. How did pro-tax groups construct proposed taxes as "fair"? What visions of the "public good" were mobilized to secure popular support for higher tax costs? Focusing on rhetorical strategies in this manner allows me to identify the logics of worth deployed by political elites to build the case for and against taxes. I also work to identify the reciprocal obligations established through the adoption of new taxes. I argue that campaigns for tax increases during the postwar period involved the construction of certain threats to state prosperity or sovereignty, as well as the definition of specific benefits or guarantees that taxes will secure. Crucially, I also examine who is expected to pay new taxes and which types of taxpayers (or non-taxpayers) will benefit from the way revenues are distributed. In other words, I investigate how the boundaries of "fiscal citizenship" are drawn during the course of debates over adopting new taxes — which types of taxpayers are included in the terms of the new fiscal bargain, and which remain excluded from its promises.

Second, however, I also focus on the organizational power of groups that supported new taxes during the postwar period. Fiscal bargains do not write and enforce themselves. Rather, ideas about taxation — including who should bear new costs, what benefits those payments should secure, and how these benefits should be distributed — are promoted by organizations and interests. Pro-tax coalitions during the 1950s and 1960s were led by education groups seeking more investment in public schools and higher teacher salaries. While educators were largely agnostic about the type of tax used to generate additional revenue, business groups tended to prefer sales taxes that shifted the costs of government onto consumers and labor unions were strong advocates for higher income taxes that would require wealthy individuals and corporations to pay more. The relative strength of business and labor organizations varied across states, and my analysis focuses on understanding which organizations had the capacity to enforce their preferred fiscal terms during these debates over new taxes and, as a consequence, how the activities of their organizations mediated the relationship between citizens and states that was embodied in the form of new tax policies.

Methods and Case Selection

I analyze the state-level development of divergent compacts of fiscal citizenship through a comparative historical analysis of debates over new taxes in four states during the postwar period: New York, Texas, Georgia, and South Carolina. I selected these four cases for analysis for several reasons. First, these states are representative of a larger group of twenty-six U.S. states that adopted at least one major new tax during the decades following World War II.¹¹ As in this broader group of states, debates over adopting a new tax in each of my cases were prompted by a structural need for more tax revenue as state populations grew and, in particular, as lawmakers sought to make more investments in public education. I focus on debates over the adoption of new taxes (rather than, for instance, debates over generating new revenue by raising the rates or broadening the base of existing taxes) because the politics of taxation are particularly salient at these moments. Proposals to adopt new taxes are visible and contentious in a way that efforts to increase existing taxes may not be. Pro-tax interests also have to engage in an explicit justification of new taxes, articulating why these taxes are fair and identifying what social benefits they will secure for taxpayers. I use these debates as a focal point for understanding the strategies pro-tax lawmakers used to mobilize popular support for these taxes as well as the terms on which the sales tax was justified.

Second, all four of my case studies debated the adoption of the same type of tax during this period: the general sales tax. I restrict my analysis to states adopting the sales tax in part because this tax typified state-level fiscal transformations during the postwar period. Twenty-one states adopted the sales tax for the first time between the late 1940s and early 1970s, while only ten states adopted the individual income tax for the first time during this period (see Table 2). With the exception of Texas, where taxes on oil and natural gas had allowed the state to avoid adopting either the individual income tax or the general sales tax, all three other states had (like most states) adopted the individual income tax during the first wave of state tax reform that took place in the early twentieth century.

¹¹ Five states (New Jersey, Rhode Island, Maine, Pennsylvania, and Nebraska) adopted both the general sales tax and the individual income tax during these decades.

Table 2: States Adopting Income or Sales Taxes after World War II

Income Tax Only (n=5)	Sales Tax Only (n=16)	Both Income and Sales Taxes (n=5)
West Virginia (1961) Indiana (1963) Michigan (1967) Illinois (1969) Ohio (1971)	Connecticut (1947) Maryland (1947) Tennessee (1947) Florida (1949) Georgia (1951) South Carolina (1951) Nevada (1955) Kentucky (1960) Texas (1961) Wisconsin (1961) Idaho (1965) New York (1965) Massachusetts (1966) Virginia (1966) Minnesota (1967) Vermont (1969)	Maine (sales 1953, income 1969) Nebraska (sales and income in 1967) New Jersey (sales 1966, income 1976) Pennsylvania (sales 1953, income 1971) Rhode Island (sales 1947, income 1971)

Importantly, choosing cases where the same tax was up for debate allows me to isolate aspects of the fiscal mobilization process that are not related to differences in tax policy design. Literature on tax politics frequently cites the structure of proposed tax policies as an important influence on the rhetorical resources that advocates bring to pro-tax campaigns. The design of a tax policy — including the distribution of its benefits, phase-in provisions that help disguise its costs, or its perceived similarity to past, successful policies — as well as the policymaking sequence that introduces it to voters can shape the ways that coalitions talk about tax policies and the information voters possess (Hacker and Pierson 2005; Martin 2010; Pearson 2014). Scholars have also argued that advocates can bolster the selling points of a tax by earmarking its revenue for specific purposes, turning debates over tax increases into discussions of social benefits (Campbell and Morgan 2005a).

Yet the sales taxes signed into law in each of these four cases were broadly similar. New York and Texas both adopted sales taxes with a two percent rate, while

South Carolina and Georgia adopted three percent sales taxes.¹² Perhaps the most significant difference was that South Carolina's sales tax revenue was statutorily dedicated to repaying bonds issued to fund a school building program, while sales taxes adopted in the other states were not earmarked in this manner.¹³ I discuss this unique aspect of the South Carolina sales tax debate in greater detail in Chapter Four.

Third, debates over sales taxes in these four states also shared important institutional and political features. The sales tax became law in each state through legislative action, rather than through a popular initiative or legislative referendum process.¹⁴ The sales tax was also endorsed by Democratic legislative majorities in all four states. Of course, party affiliation had little meaning for tax politics in the southern states of Texas, Georgia, and South Carolina where practically all lawmakers —

¹² Since New York City already had a local sales tax in place before the state sales tax was adopted, the rate there climbed to five percent. *The State*. 1951. "Three Per Cent Sales Tax Is Official As Byrnes Signs SC Appropriations Act." *The State*. April 20, p. 3A. M.L. St. John. 1951. "3 Pct. Sales Tax Passed, Assembly Ends Session." *The Atlanta Constitution*. February 17, p. 1. Of course, not all aspects of the sales tax laws passed in this group of states were identical. Sales taxes in Georgia and South Carolina applied to food and prescription medicines while sales taxes in New York and Texas exempted these items (Institute of Public Affairs 1962: 9-10; Murphy and Sitrin 1965: 206; Schanberg 1965). New York's sales tax applied to alcoholic beverages, while Texas' did not (Murphy and Sitrin 1965: 205; Institute of Public Affairs 1962: 9). Texas exempted the Bible (and other books consisting wholly of religious writing) from the sales tax, as well as the purchase of coats and jackets selling for less than \$10 (Institute of Public Affairs 1962: 10). Texas's sales tax also did not apply to any item already taxed by the state, including natural gas, sulphur, motor vehicles or fuel, tobacco products, and telephone service (Institute of Public Affairs 1962: 9).

¹³ South Carolina Act 379, Article 4, Sections 1, 13; sub article V (29). Like South Carolina, Georgia established a school building authority that could issue bonds for school construction and improvement, but it did not dedicate sales tax revenue to funding these bonds.

¹⁴ Voters in Georgia did weigh in on the adoption of new taxes in 1949 when the state legislature put a measure on the ballot asking voters to endorse the legislature's pursuit of unspecified revenue sources to fund additional state services. However, this measure (which was voted down) was not a prerequisite for the adoption of new taxes but rather an effort by lawmakers to gauge popular support for new taxes and secure political cover for a tax increase.

including those who opposed as well as supported the sales tax — were Democrats.¹⁵ More significant than the details of partisan divides in these states is the fact that taxes generally were a less partisan issue prior to the 1970s (Campbell 2009). Across the broader group of states that adopted general sales taxes during the postwar period, slightly more than half had Democratic governors at the time of adoption, but both Democrats and Republicans supported new sales taxes.¹⁶

Fourth, although these states adopted the sales tax over the course of a decade and a half, all four were part of the broad middle phase of this second wave of state-level tax reform. These states were neither part of the first group to act during the late 1940s (when Connecticut, Tennessee, Rhode Island, and Florida all adopted the sales tax) nor part of the last group to do so during the early 1970s (when Pennsylvania, Ohio, Rhode Island all adopted the income tax). Concern over high state and local taxes, particularly the local property tax, mounted throughout the postwar period and was one factor that contributed the rise of anti-tax politics during the late 1970s. By focusing on the middle phase of the postwar period, I am able to analyze fiscal mobilization processes in states where debates over new revenues occurred before property tax relief came to dominate the justifications for new taxes.¹⁷

Finally, because existing research provides evidence of regional tax exceptionalism in the American South, where states tends to rely disproportionately

¹⁵ Although the New York sales tax was championed by Governor Nelson Rockefeller, a liberal Republican, the New York legislature was controlled by Democrats when the tax was adopted in 1965. Thirty-three of the 55 seats in the Senate and 88 of the 150 seats in House were controlled by Democrats (Dubin 2007: 137). The Texas state legislature that passed the sales tax law in 1961 was also dominated by Democrats; all 31 members of the Texas Senate and all but two of the 158 members of the Texas House were Democrats. The Legislative Reference Library of Texas has an online searchable database of Texas legislators from 1846 to present. "Texas Legislators: Past & Present." Available from: <http://www.lrl.state.tx.us/legeLeaders/members/lrlhome.cfm>. Last accessed March 12, 2015. Dubin's (2007) figures report that there were no Republican legislators in the Texas statehouse during the 1961 session (182). Finally, according to Dubin (2007), no members of the Georgia Senate and only one member of the Georgia House were Republican in 1951 (50), while no members of the South Carolina House or Senate were Republican in 1951 (171).

¹⁶ Democratic governors presided over sales tax adoptions in Tennessee (1947), Maryland (1947), Rhode Island (1947), Florida (1949), South Carolina (1951), Georgia (1951), Kentucky (1960), Wisconsin (1961), Texas (1961), Indiana (1963), Virginia (1966), and New Jersey (1966). Republican governors held office in Connecticut (1947), Maine (1951), Pennsylvania (1953), Nevada (1955), New York (1965), Idaho (1965), Massachusetts (1966), Minnesota (1967), Nebraska (1967), and Vermont (1969) when general sales taxes were adopted.

¹⁷ New York was the only state out of my cases where property-tax relief played any role in debates over the merits of the proposed sales tax. Even in New York, which I discuss in Chapter Three, property-tax relief was not the primary argument mobilized by pro-tax groups. The presence of this issue in tax politics in New York is likely a result of the relatively later timing of the sales tax debate (in 1965) and the higher reliance on property tax revenue in New York than in other states in this group of cases.

more on consumption taxes (including taxes on the sale of groceries and food), I included multiple cases from this region in order to conduct intra-South comparisons of fiscal mobilization processes. By examining three former Confederate states with similar historical legacies of racial conflict, I am able to investigate the similarities and differences in the ways that racial politics shaped fiscal mobilization processes in South Carolina, Georgia, and Texas.¹⁸ The other major timing-related concern with regard to my case selection is the fact that South Carolina and Georgia both adopted new taxes prior to the formal end of racial segregation in the South with the Supreme Court's 1954 decision in *Brown vs. Board of Education*, while the sales tax debate in Texas occurred after this landmark ruling. This timing had a major impact on the tenor of sales-tax debates in these three states; campaigns in favor of the sales tax in South Carolina and Georgia in 1951 were explicitly linked to the preservation of segregated school facilities, but race was rarely discussed by pro-tax political elites in Texas in 1961.

In drawing conclusions about the strategies used by political elites to mobilize popular support for new taxes in New York, Texas, Georgia, and South Carolina, my analysis relies mainly on primary source material collected in each state. I include both South Carolina and Georgia as cases in order to triangulate the available archival material on state tax debates in these states, which was less substantial than in New York and in Texas. I examine material related to the tax policymaking process, such as internal correspondence among legislators and the governor's staff in each state, draft tax bills and policy memos, interest group analyses and legislative platforms, and reports produced by tax commissions assigned to study the state's revenue needs. These materials allow me to establish how the sales tax was understood by various groups involved in the policymaking process, including state lawmakers as well as interest groups lobbying on tax policy. I pay particular attention to material produced by business and labor groups, as well as education interests, which were the primary members of pro- and anti-tax coalitions during this period. I also analyze constituent letters about the sales tax written to governors and major newspapers in the three states where this data was available: New York, Texas, and Georgia. Although I analyze these letters in detail in Chapter Five, I bring in material from constituent correspondence where relevant throughout the entire dissertation.

In addition to primary source material, I also rely on published and secondary accounts of tax debates in each state. Newspaper articles detailing legislative debates over tax proposals are essential in establishing the specific timeline of the policymaking process in each state, as well as the rhetoric used by pro- and anti-tax coalitions in

¹⁸ Indeed, these three states represent the entire population of former Confederate states to adopt a major new tax during the postwar period. The only other Southern states to adopt a new tax after World War II were Kentucky (which adopted the sales tax in 1960) and West Virginia (which adopted the income tax in 1961).

arguing over the merits of the sales tax. Where available, I rely on secondary literature detailing tax debates or state politics more broadly in each state.

Plan of the Dissertation

In the chapters that follow, I analyze the powerful contribution made by state-level tax reforms during the postwar period to the development of American fiscal exceptionalism. I begin in Chapter Two by examining how state governments in the United States came to have such an unusual degree of fiscal responsibility for supporting the national welfare state. Why, unlike other wealthy federal countries, did the United States repeatedly fail to adopt a robust tax equalization program that could have helped reduce fiscal inequalities among state governments? Existing analyses have focused on the 1972 adoption of relatively weak revenue-sharing legislation under President Nixon, but by expanding the historical frame of reference for discussions over the problem of state fiscal inequities back to the 1930s, I draw attention to longstanding ambivalence on the part of progressives over strengthening state finances. While the architects of the emerging liberal state were deeply concerned with the ways in which state fiscal weaknesses exacerbated the Great Depression, they were also painfully aware that conservative business interests were eager to exploit limited state fiscal capacity to put a brake on the growth of the federal government. Viewed in this context, the efforts of Keynesian economists in the 1960s to promote sharing national revenues with state governments through a system of no-strings-attached budget support payments was a brief exception to a broader pattern of liberal suspicion that fiscal equalization would undermine a robust national social policy.

In Chapters Three and Four I turn to analyzing the state-level consequences of this failure to develop a meaningful national program for strengthening state fiscal resources. I examine in detail the diverse narratives of fiscal citizenship developed by pro-sales tax campaigns in New York, Texas, South Carolina, and Georgia. Though all four states in my analysis faced similar revenue needs, shared basic institutional and political features, and turned to the same type of tax, political elites in states developed sharply contrasting justifications for the general sales tax. In New York, advocates positioned the sales tax as the guarantor of robust public investment in programs that would help all New Yorkers achieve the American dream. In Texas, on the other hand, pro-sales tax groups contended that the sales tax would help redress the threat of an unbalanced tax system that discriminated against certain types of business taxpayers. Rather than focus on the public investments that the sales tax would fund, advocates emphasized how the sales tax would ensure that all Texans paid their “fair share” in supporting a limited government capable of fending off federal interference. Finally, in South Carolina and Georgia, pro-sales tax voices argued that the sales tax was the best way to respond to threats against the white supremacist order, particularly legal challenges to the state’s system of segregated public education. The sales tax would

force racial minorities to contribute to the cost of improving schools while demonstrating the state's commitment to "separate but equal" facilities.

I argue that these differences in sales-tax justifications were the product of two main sociopolitical factors: the balance of power between business and labor interests and the structure of the prevailing racial order. The composition of pro- and anti-tax coalitions was remarkably similar across all four states that I examine in this analysis, suggesting that differences in the way the sales tax was positioned and discussed had little to do with the *type* of interests that supported or opposed it. In all states, pro-sales tax coalitions were primarily headed by education and business interests (with the notable exception of retail merchants), while anti-sales tax forces were led by labor unions and retail merchants. However, the *strength* of these interests, and the balance of power between them, varied notably across states. In New York, where labor unions (particularly those representing public employees) were a potent force in state politics, labor interests demanded a noticeable shift in the way that the pro-sales tax coalition justified sales taxes, inducing a rhetorical focus on the public investments the tax would fund. In Texas, on the other hand, business interests dominated the state political scene and their political influence fostered a different language of fiscal mobilization. Instead of justifying sales taxes because they would enable increases in social expenditures, business groups legitimated sales taxes by talking about how they would produce balance and equity in the tax system by taking the burden off corporate taxpayers. The terms of fiscal citizenship in Texas focused primarily on allocating the obligations of taxpayers and had little to say about the state's reciprocal obligations to its citizens.

My analysis also demonstrates that racial diversity has clear impacts on the ways that elites construct the threats that a new tax can help address and the guarantees it will secure, as well as on the ways that boundaries of fiscal citizenship are drawn. While existing literature has focused on the ways in which racial diversity constrains redistribution, my analysis demonstrates that it has an even more powerful impact on the logics and meaning of that redistribution. White taxpayers in South Carolina and Georgia were willing to pay higher taxes — and even to dedicate large shares of the resulting revenue to spending on black schools — but only if tax reform would also guarantee the preservation of a "public" sphere reserved for white citizens.

My analysis of sales tax debates in Chapters Three and Four primarily focuses on the actions and statements of political elites, including legislators, governors, and organized groups. But in Chapter Five, I turn to the ground-level narratives of fiscal citizenship articulated by ordinary citizens in these states. I analyze an original dataset of letters written to governors and major newspapers in New York, Texas, and Georgia in order to understand how correspondents argued over the costs and benefits of new taxes and what justifications they relied upon to make a pro- or anti-tax case. I find that letter writers in all three states often used similar language to express their major criticisms and defenses of the sales tax. The sales tax was commonly criticized for

imposing too much of a burden on taxpayers and for creating an unfair distribution of the tax burden in a state. And, when praised, the sales tax was most frequently cited as a way to help the state meet its funding commitments, including for public education.

Yet, underlying these broad similarities in citizen views of the sales tax, I find significant differences in how letter writers in each state conceptualized state government and the social benefits it could secure through new taxes. Letters from Georgia and Texas shared many common features, including a view of state government as corrupt and untrustworthy. Southern correspondents, particularly those from Georgia, also exhibited high rates of concern about the problem of certain groups of taxpayers escaping taxes. While political elites in Texas rarely used racial stereotypes to justify the sales tax, I find that letters from ordinary Texas were less circumspect, frequently mentioning how the sales tax would force migrant farmworkers from Mexico to pay their fair share of the costs of state government. Pro-tax voices in Texas and Georgia frequently focused on how the sales tax would treat all types of taxpayers equally and force these groups to pay their fair share of state taxes.

In contrast, letter writers from New York expressed virtually no concern over the trustworthiness of state government or over any types of taxpayers escaping taxes. New Yorkers did exhibit relatively high rates of concern over the mounting cost of state government, particularly given that public infrastructure and services in New York were already among the strongest in the nation. And New York correspondents tended to view the case for and against the sales tax in economic terms, focusing on whether the new levy would harm the state business climate and provide property tax relief. Neither elite discourse nor citizen letters made explicit references to racial issues or minority groups during the 1965 debate over adopting the sales tax in New York. At the same time, citizen letters did express a mounting concern over the high cost of maintaining an ambitious state-level welfare state in New York, which existing literature suggests may be linked to discomfort with spending on racial minorities.

Conclusion

Ultimately, my analysis in this dissertation connects persistent variation in state fiscal capacity with broader contestations over who should do what in the American state and how those responsibilities should be financed. By expanding our analytical field of vision to include state and local taxation, my research suggests that debates over taxes at these levels of government have exerted powerful effects on American state building. In the concluding pages of this dissertation, I further develop the implications of my argument for theories of the relationship between public finance and social policy. I urge greater attention to the states as key sites of contestation over revenue generation and suggest that these inquiries should move beyond a focus on Southern fiscal exceptionalism to investigate the *multiple* regimes of taxation that persist across many regions and states in the United States.

Chapter Two: American Fiscal Exceptionalism and the Failure of Federal Tax Sharing

What accounts for the United States' exceptionally high reliance on state-level revenues to fund social policy expenditures? One critical difference between intergovernmental fiscal relations in the U.S. and other wealthy federal systems is the U.S.'s lack of a "fiscal equalization" program that provides subnational governments with substantial levels of no-strings-attached general-support grants in order to equalize the resources available to support decentralized public spending. Countries such as Australia and Canada have institutionalized "tax sharing" or "revenue sharing" arrangements that distribute centrally-collected revenues back to subnational governments through allocation formulas that take into account a subnational government's ability to raise funds from its own resources. Poorer regions of the country receive more funds from the central government because it is more difficult for them to raise these revenues locally. In the United States, where no such equalization program exists, state and local governments must rely heavily on "own-source" revenues (or revenue generated from their own tax bases). While federal grants do redistribute funds to state and local governments, they do so primarily for specific spending aims and often contain matching fund requirements that disadvantage poor states. Because some American states have much larger or wealthier tax bases than others, major disparities persist among states in terms of their "revenue capacity," or state governments' ability to use taxes to generate the funds needed for public expenditures.

Although American public finance experts and policymakers repeatedly debated the merits of adopting a tax sharing program, beginning during the Great Depression and throughout the postwar period, no such program was ever established. In this chapter, I analyze these debates in order to understand the factors that account for this crucial aspect of American fiscal exceptionalism. Despite the major implications of subnational fiscal inequalities for the size and shape of welfare states, existing literature on federalism and social policy has only rarely engaged questions around the institutional or political development of fiscal equalization programs. Existing theories suggest that the American failure to engage in more robust revenue equalization could be a consequence of the lack of formal representation for state governments in the American political system or the high number of veto points in the policymaking process that allows states to block reforms that do not benefit them (Campbell and Morgan 2005b; Béland and Lecours 2014). Southern senators in particular have often limited efforts to expand the American welfare state out of concerns that federal dollars will be employed to disrupt local labor markets or political orders premised on the maintenance of white supremacy (Katznelson 2005; 2013).

However, this literature has largely failed to engage a long set of debates over intergovernmental fiscal relations in the United States that began during the 1930s and 1940s, the same period during which fiscal equalization programs were being established in Australia and Canada. By analyzing this longer history of contestation over which levels of government should do what and how those responsibilities should be financed, I demonstrate that the lack of a fiscal equalization program in the United States can be traced to the deep skepticism of liberal state builders over the use of tax sharing to support social welfare expenditures. During the 1940s, Keynesian economists in the National Resources Planning Board and their allies in the labor movement helped craft a new understanding of state fiscal inequities as a threat to national economic stability, combating the conservative view that these differences expressed a key strength of American federalism. At the same time, progressives remained wary of efforts to strengthen the fiscal capacity of state governments, which they viewed as part of a campaign by business interests to limit the growth of the welfare state by linking social expenditures to state and local tax bases — rather than to the deficit-financing capabilities of the federal government. Throughout the postwar period, liberals instead advocated for the use of grants-in-aid as the major method by which to return funds to state governments to support social spending. Even when a group of Keynesian economists came to advocate for revenue sharing during the 1960s, key members of the liberal coalition — labor unions and civil rights groups — remained staunchly opposed to this policy, which was instead championed by conservatives eager to roll back Great Society spending programs.

In short, tax sharing never became linked to a broader process of state building in the United States, as it arguably was in other wealthy federal countries. Left to their own devices to mobilize popular support for higher revenues during the postwar period, state governments developed distinctive justifications for why new taxes were needed and the benefits they would secure — a process I analyze in greater detail in subsequent chapters. The efforts of liberal state builders to consolidate the New Deal state by relying on federal grants rather than fiscal equalization to support state governments had a paradoxical effect as each state crafted its own fiscal bargain with its taxpayers, negotiating over the boundaries of a more local welfare state and the tax payments that would support it. Ultimately, my analysis demonstrates that theories of the relationship between public finance and the American welfare state must also take into account how public finance responsibilities are distributed across local, state and federal governments in the United States.

Taxes, Federalism, and the Limits of American Social Policy

Literature on federalism and the welfare state has increasingly recognized the importance of studying “varieties of federalism” — and particularly the institutional details of how tax and budget decision-making is distributed among levels of

government — since, as Obinger et al. (2005) note, the wide variety of federal arrangements across countries means “there is no one-to-one relationship between decentralization and the size of the public sector” (34). Decentralized taxation and spending authority can exert either a constraining or expansionary influence on the welfare state, depending on the particular configurations of institutions, interests, and actors that prevail in a given context. Constituent units may exert pressure for centralization in order to relieve fiscal stress at the local level, and the fragmentation of taxing authority across multiple levels of government may actually contribute to state revenue capacity (42-43). On the other hand, fiscal decentralization can also produce a “race to the bottom” dynamic among constituent units and dampen local enthusiasm for generous social policy experiments (42).

One institutional feature of particular importance in determining whether fiscal decentralization plays a catalytic or constraining role with regard to the welfare state is the degree of fiscal equalization that occurs across political jurisdictions. Fiscal equalization can occur both between and within levels of government, but essentially involves redistributing revenue from relatively affluent units to those that struggle to raise sufficient funds from their own tax bases. Importantly, in federal systems like Canada and Australia where such fiscal equalization mechanisms are in place, equalization funds are distributed to poorer states with no programmatic strings attached; they are budgetary support payments that exist separately from federal grants for specific programs that might also deliver national funds to state or provincial governments. Pierson (1995) suggests that weak attempts to equalize fiscal capacity across constituent units may make these units less likely to engage in policy experimentation and magnify the leverage that business and the wealthy exercise over local governments (466). Meanwhile, the presence of a fiscal equalization institution seems to mute some of the negative social-policy outcomes usually associated with federalism and lead to increase welfare state effort. For instance, fiscal federalism in Germany is characterized by a high degree of revenue sharing between central and sub-national governments, in which revenue raised by the national government is then pooled and redistributed to its sixteen state governments. Campbell and Morgan (2005b) argue that this institutional arrangement helped facilitate a collective response to the problem of old-age care and led to a more robust social insurance program in this area than in the United States, which adopted a limited revenue-sharing program in 1972 but then abolished it in 1986.

Despite a new interest in probing the institutional roots of welfare state variation among federal systems, the question of why meaningful redistributive financing mechanisms never developed in the United States has received relatively little attention from scholars. One explanation suggests that the absence of fiscal equalization may be a consequence of the relative powerlessness of state and local governments in the American political system. In contrast to other federal systems where subnational

government units have formal political representation in national policymaking — for instance, in Germany, where constituent states have successfully pushed for centralized reforms that help lessen their fiscal burden — state governments in the United States must act like other interest groups and pursue preferred policies through lobbying efforts (Campbell and Morgan 2005b). At times, state governments have successfully organized and advocated for proposals to relieve fiscal pressure, as when a newly-strengthened National Governors Conference united behind revenue sharing policies during the late 1960s and early 1970s (Haider 1974: 60-75). But, as Campbell and Morgan note, governors were not powerful enough to prevent the termination of the revenue sharing program and reduced funding for many federal grant programs in the 1980s (2005b: 896).

Other scholars have argued the opposite point: that the main determinant in whether a nation develops a fiscal equalization program is not the ability of subnational governments to use formal political representation to *demand* redistributive policies, but rather the capacity of states to *block* redistributive schemes that they see as disadvantageous. Béland and Lecours (2014) contend that the weaker conception of social citizenship in the United States and the lack of a meaningful threat to the nation's territorial integrity after 1865 are key social factors that account for the fact that “equalisation is largely a non-issue in the United States” (311). However, they go on to claim that even if these societal pressures had been present, institutional features of the U.S. political system would prevent states from coming to a consensus on a revenue sharing program with meaningful redistributive impacts. The American system combines bicameralism with weak party discipline, allowing individual senators whose interests would not be served by equalization to block reform without fear of sanction from their party. Thus, wealthy states could block an equalization program that disproportionately benefits poor states, or less populous states could hamstring a policy that distributes grants on a per capita basis (322).

Indeed, while Béland and Lecours (2014) do not specifically discuss the relationship between sectionalism and redistribution in the United States, the broader welfare state scholarship finds that these institutional features of American politics have historically allowed southern states to block expansions of social policy they perceived as threats to white supremacy. New Deal programs were written to accommodate white southerners' resistance to policies that could economically empower poor blacks; for instance, Social Security excluded farm and domestic labor from the law's old-age assistance benefits and turned administration of the bill's social insurance aspects over to local actors who could design benefit and eligibility rules to exclude blacks (Katznelson 2005). As I discuss in greater detail in the next section, opponents of New-Deal-era tax sharing policies that would have funneled federal revenues down to state governments warned of the dangers of an overbearing federal government holding the purse strings and making state and local governments dependent on federal dollars.

Southern states might be expected to be particularly sensitive to attempts at greater federal control of state and local funds, suggesting the southern veto as one other explanation for the lack of a meaningful fiscal equalization program in the United States.

However, I argue that existing accounts of the failure to develop an equalization program in the United States are incomplete for several reasons. First, fiscal equalization has been a prominent and recurring debate in the United States throughout the twentieth century. Far from being a “non-issue,” prospects for a fiscal equalization program similar to the ones adopted in Canada and Australia were active topics of discussion among governors, Treasury officials, and public finance experts during the 1930s and 1940s. Furthermore, a broader set of discussions over how to reform intergovernmental fiscal relations sparked by the state and local fiscal crisis of the Great Depression also continued during the postwar period as states struggled with budget shortfalls brought about by rapidly growing populations and demands for public services. Despite the fact that the lobbying arms of state and local government associations remained relatively unorganized and ineffective until the mid-1960s, these issues were central to postwar planning discussions during the 1940s and were the subject of a series of federal commissions in the 1950s and 1960s. A new government agency — the Advisory Commission on Intergovernmental Relations — was created in the late 1950s in response to demand from state and local governments that these issues receive a voice in federal policymaking.

Second, while the institutional design of American politics clearly allows veto players to play an outsized role in blocking national reforms, by no means do these features necessarily short-circuit redistribution across the states. In lieu of adopting a fiscal equalization program in response to the Depression or postwar state budget pressures, Congress continued to expand an ad hoc system of federal grants-in-aid that disproportionately benefited poor, rural states while disadvantaging wealthier, urban states whose residents contributed more in federal income tax payments. While federal grants were not particularly effective at facilitating equalization of fiscal resources (indeed, because they often required matching grants, they were easier for wealthier states to participate in), they still produced major disparities among states in terms of per capita federal aid payments. In 1956, for instance, total federal grants (excluding highways) per capita ranged from a low of \$9.00 in New Jersey to a high of \$51.30 in Wyoming (Joint Federal State-Action Committee 1960: 127). In short, although a tax sharing program would have created winners and losers among states, creating an incentive for some states to block these policies, the prevailing system *also* created winners and losers.

Furthermore, while equalization policies by definition would have benefited poor states more than their wealthy peers, support for such schemes is often secured by designing the program so that all states benefit in relation to the status quo. For

example, during a debate over these issues in the 1960s, critics complained that some states would be “winners” and other “losers” under a proposal to turn federal taxes on local telephone service over to states along with fiscal responsibility for certain vocational education and wastewater treatment grants. In response, the Joint Federal-State Action Committee, which was devising this proposal, undertook substantial revisions in order to allocate all states more revenue than was needed to assume the costs of these grant programs (1960: 86). As I discuss later in this chapter, this plan ultimately failed not because some states objected to a scheme in which all would end up with additional funds but rather because Congress chose to repeal the federal telephone tax, thereby eliminating the revenue that could be used to hold states harmless when they took over responsibility for grant costs.

Finally, while opponents of tax sharing or fiscal equalization proposals commonly decried them as schemes to make states dependent on an increasingly powerful federal government, there is little indication that southern states were concerned that tax sharing represented a threat to white supremacy. Katznelson, Geiger, and Kryder (1993) find that “Southern antipathy to national state authority focused very specifically on interventions into the region’s race relations and labor markets” (293). Yet on a range of other policy issues during the 1930s and 1940s, including fiscal and planning policies, southern Democrats favored New Deal priorities by similar margins to their northern counterparts. Indeed, as the poorest states in the nation, southern states stood to benefit the most from any general-support grants, particularly grants funded through a progressive federal income tax that generated more of its revenues from wealthier taxpayers in northern urban centers. Federal revenues would effectively subsidize a southern growth strategy that relied on low wages, as well as low taxes on businesses and incomes, in order to attract economic development.

If the institutional features of the American political system are insufficient explanations for the lack of a fiscal equalization program, then how should we explain this aspect of fiscal exceptionalism in the United States? My approach to this question is distinctive in two respects. First, unlike existing accounts, which have focused primarily on the politics of the Nixon revenue-sharing program that was briefly implemented beginning in the 1970s, I expand the scope of my analysis to include reforms advanced by New Deal planners during the 1930s, proposals from governors seeking to “rebalance federalism” in the 1940s and 1950s, and policies developed by Keynesian economists who established new footholds in federal agencies during the 1960s. Second, I also locate proposals for federal fiscal equalization within a broader suite of policies aimed at intergovernmental fiscal reform, some of which had explicit equalization aims and some of which did not. Only by examining this longer debate over how to allocate the costs and responsibilities of financing the American state across different levels of government can we understand how state builders and advocates of limited government came to view proposals for tax sharing and equalization.

In this chapter, I argue that there is little evidence that progressive state builders in the United States ever favored fiscal equalization as a way to finance an expanded welfare state. In addition to demonstrating that proposals to share federal tax revenue with state governments were a recurring feature of debates over intergovernmental fiscal reform, I also show that these proposals repeatedly failed to gain traction with those constituencies advocating for more generous social policies. Progressives associated calls for tax sharing with a broader set of proposals purportedly aimed at strengthening state government fiscal capacity, but which they viewed as efforts to undermine the consolidation of the New Deal state. Indeed, progressives were largely correct in their suspicions: fiscal conservatives and some business interests saw limited state fiscal capacity as a critical brake on the growth of the liberal welfare state. Beginning in the the 1930s and continuing into the postwar period, conservatives saw tax sharing and tax “segregation” schemes as vehicles for returning control over federal grant programs to the states, effectively tying social expenditures to a finite pool of state tax resources rather than to the unlimited deficit-spending power of the federal government.

Depression-Era Proposals for Tax Sharing

The use of “shared taxes,” or the distribution of revenue from a centrally-administered tax to local units of government on the basis of some allocation formula, has a long history in American intergovernmental fiscal relations. Historically, tax sharing has been more prevalent in fiscal relationships between state and local governments than between federal and state governments. A 1931 study identified 142 taxes levied by state governments with the revenue then shared with local governments, typically corporate income, motor vehicle, or gasoline taxes (Hutchinson 1931: 35-27). The idea of earmarking portions of certain federal taxes for distribution to state governments gained new traction during the Depression, when state revenues were devastated by the economic crisis and states turned to a host of new taxes — primarily excise taxes and general sales taxes — to meet their revenue needs. The experience of foreign federal systems provided another model for tax sharing between federal and state governments. During the 1930s, both Canada and Australia developed equalization programs aimed at improving the fiscal capacity of poorer subnational governments (Béland and Lecours 2014).

Proposals for sharing federal revenues with state governments were also discussed in the United States, particularly in response to the fiscal crisis of the Great Depression. The Graves-Edmonds plan, developed by New York state tax commissioner Mark Graves and the president of the National Tax Association (NTA), Franklin S. Edmonds, resembled the intergovernmental fiscal reforms in Australia and Canada. Graves and Edmonds proposed dedicating a portion of revenues from federal taxes on liquor, gasoline, and cigarettes to state governments. They also urged adopting a federal

excise tax on all manufacturers (excepting food manufacturers) and earmarking eighty percent of the revenue for distribution to state governments. Each tax source would be returned to the states based on a separate allocation formula, which generally sought to distribute revenues to states on the basis of their population or consumption of the taxed goods rather than on the basis of a more finely-tuned measure of fiscal capacity. Most importantly, state receipt of shared federal revenues was conditioned on states agreeing to reduce or abolish their existing state-level taxes on gasoline, cigarettes, and sales (including retail sales taxes, license fees, or franchise taxes on business) (National Tax Association 1933: 30-39; 1934: 165-169). Edmonds noted that “the proposition that I am advancing to you is one that has been tried and tested and is being worked today by our neighbor up north” (1933: 38). For seventy-five years, Canada had allowed the federal government to assume the exclusive right to impose tariffs on the condition that half of the resulting revenue was redistributed to the provinces and, Edmonds pointed out, “they are now applying that same idea to other taxes than to the tariff proposition” (38).

Graves and Edmonds primarily saw their plan as a way to simplify the prevailing tax system, under which interstate businesses faced a proliferating number of separate tax regimes, each with its unique definitions of the tax base, rates, and bureaucratic procedures for filing and appeal. In presenting the plan to the 1933 meeting of the National Tax Association, Edmonds urged his audience to consider whether revenue should be collected “by forty-nine varieties of methods, or shall it be collected by some uniform method, the proceeds being apportioned?” (37). Edmonds was particularly alarmed by the rapid rate at which new taxes were being adopted by state governments in response to the deteriorating capacity of the property tax to generate revenue during the economic crisis. He cited figures during a 1936 discussion of the tax sharing plan that suggested “a thousand new laws [were adopted] by the states in 1935 [. . .] and 400 new tax laws in 1936. Nineteen thirty-seven is still ahead of us” (National Tax Association 1936: 259).

Importantly, Graves and Edmonds also argued that providing property tax relief to the states through federal tax sharing would also prevent the further growth of federal spending on social welfare programs by allowing states to take up these responsibilities. These programs had been taken up by the federal government, Edmonds contended, because it was the only level of government that could finance them during the crisis but they could be “returned to state and local government” if these governments had the necessary revenue available (National Tax Association 1936: 258-259, 261). Indeed, many states — particularly those that did not currently rely heavily on the taxes included under the plan — would gain additional revenues by giving up access to these tax sources under the Graves-Edmonds plan. However, states that already raised substantial amounts of revenue from liquor, cigarette, gasoline, or sales taxes risked not recouping enough revenue from the shared federal taxes to match

their current yields of state-level taxes on these activities. The NTA's Committee on Fiscal Relationships of Federal and State Governments, tasked with evaluating the Graves-Edmonds plan as part of its broader mission to study intergovernmental fiscal relationships, warned that federal taxes would likely have to be levied at higher rates in order to hold all states harmless under the tax sharing proposal and encourage states to participate (National Tax Association 1934: 169).

Critics of the Graves-Edmonds plan painted it as a menacing overreach of federal authority, designed to subordinate state governments. The NTA's Committee on Fiscal Relationships of Federal and State Governments argued that the plan "would be an entering wedge for an ever-increasing control of almost all state revenues by the federal government" and warned that this control could also extend to expenditure decisions (169). During the NTA's 1934 meeting when the Committee's report was discussed, New York lawyer Russell Bradford fumed that the plan would sell "the birthright of state and local autonomy and government for the mess of pottage of securing a less expensive tax administration" (174). NTA member J.S.Y. Ivins sarcastically asked whether it might not be simpler to just abolish all the states and turn them into counties: "It would not take a constitutional amendment; all you have to do is what has been done in the National Industrial Recovery Act and the Agricultural Adjustment Act. Congress can declare all commerce to be interstate commerce and prohibit the states from levying any taxes except poll taxes. Then, Congress can say there shall be a tax and delegate to a member of the cabinet the power to determine on what it shall be imposed, at what rates, and how the money shall be used!" (1934: 179).¹⁹

Far from seeing tax sharing as a route to fiscal independence for state governments or a way to resume control over spending functions that had been taken up at the federal level, critics believed that seeking uniformity in taxes or greater equality in state fiscal capacity would destroy the diversity that formed the foundation of American federalism. Henry F. Long, an NTA member from Massachusetts, argued that different resource bases had generated different reservoirs of wealth across the American states that were particular to their individual character, from the manufacturing wealth in Pennsylvania "dug out from the ability of the Quaker ancestors of Senator Edmonds" or the "vast prairies" that produced wealth in other parts of the country (National Tax Association 1936: 264). However, Long strenuously objected to the idea of "siphon[ing]" these distinct sources of wealth into one federal reservoir and then redistributing it to other states. "I can agree that the citizens of

¹⁹ Few Southerners participated actively in the NTA discussions during this period, including in debates over tax sharing and federalism. A.H. Stone of Mississippi was a frequent attendee at meetings during the 1930s and presented to the group on his state's experience adopting the sales tax, but did not express concerns over tax sharing leading to federal encroachment on states' rights (1934). The secretary treasurer of the NTA, W.G. Query, was from South Carolina, but also did not take a leadership role in these discussions.

Indiana, Massachusetts and California can have a community of interests,” he stated. “I can agree that they can cooperate; but I cannot agree that Massachusetts wants to turn over its government to Indiana. I don't believe Indiana wants to turn over its government to California. I think we are separated. We have certain developments, because we develop in Indiana, in Massachusetts, and in California things with which we are daily living, and are familiar with, and it is in that way that the enormous wealth of this country is created. That being so, why shouldn't we tax these people locally? Why shouldn't Massachusetts tell how it is going to tax its good people? Why shouldn't Indiana tell how it is going to tax its people? And why shouldn't California tell how it is going to tax its people?” (264).

Labor, the “New Economics,” and the Problem of State Fiscal Capacity

The prospect of simplifying taxpaying through the establishment of central, uniform tax administration was not enough to persuade wary members of the National Tax Administration of the merits of federal tax sharing. But if the irritation of multiple regimes of taxation across different states was not a sufficient threat to make tax sharing attractive, the realization that state fiscal weaknesses posed a more systemic threat to economic stability seemed to offer a stronger basis for motivating intergovernmental fiscal reform. During the late 1930s, Keynesian economists in the Roosevelt administration — primarily located in the National Resources Planning Board — helped develop a new consensus around the macroeconomic dangers posed by the insufficient and unequal revenue capacities of state and local governments. However, unlike the economists of the 1960s who would embrace federal tax sharing as a central component of a Keynesian approach to macroeconomic management, this earlier group of liberal planners in the Roosevelt administration, along with their allies in the labor movement, rejected tax sharing in favor of a reliance on increased federal grants-in-aid to state and local governments.

The National Resources Planning Board (NRPB) was a federal agency first established in 1933 and charged with facilitating public works by preparing lists of construction projects that could be undertaken immediately to stimulate economic growth (Warren 1969).²⁰ Although the use of public works spending to stimulate the economy was largely a pre-Keynesian invention, the NRPB also provided an institutional foothold within the Roosevelt administration for the growing influence of Keynesian economics during the 1940s (Warren 1969: 188-192; Weir 1992: 40-45; Stein 1996: 143-144). From the perspective of the “new economics,” postwar economic planning had to address the problem of state-level fiscal capacity because decisions by state and local governments could dramatically destabilize the national economy. Alvin

²⁰ The National Planning Board was established in 1933 as part of the Emergency Administration for Federal Works, replaced by the National Resources Committee in 1935, and then reorganized into the National Resources Planning Board in 1939.

Hansen, an adviser to the NRPB and a leading proponent of using an active fiscal policy to achieve full employment, wrote in 1944: “Public finance is a potent weapon. The spending, taxing, and borrowing activities of governmental units can be managed so that they can make a distinct and important contribution to the expansion and stability of the national economy. But these activities of government may also be mismanaged so as to cause contraction and instability. A co-ordinated and rational fiscal policy at all levels of government is urgently needed” (Hansen and Perloff 1944: 40-41). Hansen argued that the “taxing, borrowing, and spending activities of the state and local governments collectively have typically run counter to an economically sound fiscal policy” by following “the swings of the business cycle, from crest to trough” (49).

Liberal planners at the NRPB identified three major problems with the prevailing system of intergovernmental fiscal relations, each of which threatened macroeconomic stability. First, while state and local governments had traditionally financed the vast majority of social policy spending in the United States, their lack of access to debt financing during economic downturns meant that they were forced to curtail spending precisely when it was most needed. The economic crisis devastated property values and led to a sharp increase in foreclosures, causing plummeting property tax revenues. In the early 1930s, state and local governments were financing a staggering 98 percent of the nation’s total public aid expenditure (National Resources Planning Board 1942: 292). However, without recourse to deficit financing or borrowing, state and local governments curtailed their expenditures. Before the federal government initiated New Deal spending programs that provided matching federal funds to states that agreed to establish emergency relief programs, less than a quarter of state governments had initiated any relief programs of their own accord (Amenta 1998: 70). An NRPB subcommittee, set up to study how to encourage state and local governments to budget for public works expenditure, commissioned a study by economist John K. Galbraith that found total construction expenditures actually declined during the first few years of the Depression — when they were needed most and despite massive new federal investments — because state and local governments had been unable to maintain their property-tax-financed spending on these projects (Warren 1969: 76-77).

Second, unable to rely on borrowing to finance their expenditures during the economic crisis, record numbers of state had turned to consumption taxes during the Depression, and these regressive taxes acted as a drag on purchasing power during the economic downturn (National Resources Planning Board 1942: 35-40, 49). The NRPB criticized this reliance on regressive sales and excise taxes (as well as the federal government’s growing reliance on the payroll tax to fund social insurance programs) for its negative impact on the economic recovery. The NRPB’s major 1942 report on postwar planning, *Security, Work, and Relief Policies*, argued: “Had the States and localities (and in the years after 1935 the Federal Government also) not resorted so heavily to taxes in place of borrowing, the size of the net government contribution would have been

greater. And had the taxes not fallen so heavily upon the lower income brackets, a greater increase in active purchasing power would have occurred through the transference of income from savers to spenders” (471).²¹

Third, significant disparities among states in terms of their fiscal resources — and willingness to exploit these resources to fund public assistance programs — meant that the availability and generosity of public assistance varied dramatically across the United States during the 1930s and 1940s. Unemployment had hit some parts of the country much worse than others during the Depression, and there were also major differences among states in terms of their economic wealth. The NRPB report noted that per capita income levels in the United States ranged from \$203 in Mississippi to \$848 in Delaware (300). These disparities meant that “regardless of the fiscal system adopted” by state governments during the postwar period, a “wide difference in the capacity of States to support a financial burden of any given size” would persist (300).

Existing federal aid programs — particularly those aimed at providing public assistance for poor families — often exacerbated these disparities in state-level fiscal capacity because they required state matching grants. In the late 1930s, more than three-quarters of all federal aid to the states came through the Works Progress Administration (WPA) programs and a set of special assistance programs (old age assistance, aid to the blind, and aid to dependent children) (306). Both of these types of federal aid required matching expenditures by states, meaning that “the less a state is able to contribute, the less it will receive from the Federal Government, an unfortunate result in view of the fact that a high degree of need within a State often coincides with especially restricted financial capacity” (306). Furthermore, poorer states tended to divert resources toward programs that would attract at least some federal dollars, leading them to spend little on general relief programs, which did not have any federal match (308). The jointly-financed social welfare state of the 1940s, in other words, was a patchwork of disparate eligibility requirements, benefit levels, need for assistance, and state and local government’s ability to finance relief spending. As the NRPB concluded: “From the broad national point of view it may indeed be said that social policy in the last decade has been based upon a fundamentally false premise: namely, that there was everywhere in operation an efficiently and adequately operating residual general public-aid service” (452).

For the liberal planners in the Roosevelt administration and their progressive allies, the solution to these problems of state fiscal capacity was federal leadership in the financing of the emerging liberal state. However, rather than tax sharing, progressive interests championed the expanded use of grants-in-aid to secure a postwar agenda for full employment. The NRPB’s 1942 report recommended that financial responsibility for

²¹ The report was actually submitted to President Roosevelt in early December 1941, a few days before the Pearl Harbor attack. The report was not released until late 1942 and was then published in early 1943.

all public-aid costs across levels of government should reflect differences in need and economic and fiscal capacity (545). The report also specifically called for establishing a federal grant program for general assistance that would take into account differences in fiscal capacity among states. The current equal-matching system of federal aid for special assistance programs, the report's authors continued, should be replaced with "a grant in which the amount of the Federal contribution would take into account differences between States in need and in economic and fiscal capacity" (548). In a separate proposal written after the NRPB was abolished, Alvin Hansen advocated for expanded federal grants to states in the areas of education, old-age pensions, unemployment insurance, health insurance, and public assistance. These grants would be allocated to states on the basis of their "relative need and relative financial resources" but would also be distributed in such a manner as to "stimulate the state and local units to make a reasonable effort to support the services out of their own resources" (Hansen and Perloff: 1944: 144-145).

Labor unions shared the liberal planners' commitment to full employment. The AFL and the CIO both heartily supported the NRPB's *Security, Work, and Relief Policies* report when it was published (Kersten 2006: 215). Labor groups were also major proponents of federal aid to education, one of the largest costs to state and local governments.²² Echoing the concerns of the liberal planners at the NRPB who had highlighted disparities among states in their abilities to fund social programs, labor groups argued that states (and local school districts) had varying levels of "average income per child" to devote to improving schools. In materials prepared for the 1955 White House Conference on Education, the national CIO Department of Education and Research noted that state-level differences in teacher salaries, per child educational expenditures, and building facilities demonstrated that "children all over the United States do not have equal opportunity to get a good education" (emphasis original).²³

Financing the Liberal State

When it came to financing these ambitious goals, state-level taxes were to play only a minor role in supporting the expanded liberal state. Instead, the progressive coalition recommended reliance on the federal income tax and, when necessary, deficit financing to maintain federal expenditures and prevent another economic crisis. Labor groups and the Keynesian economists were concerned that states relied heavily on

²² "Excerpts of an address prepared for delivery before the convention of the American Association of School Administrators, Atlantic City, NJ, by President Walter P. Reuther of the Congress of Industrial Organizations." February 18, 1953. New York State AFL-CIO Records; WAG 031; box 4; folder 30; Tamiment Library / Robert F. Wagner Labor Archives, New York University.

²³ "Background Materials for the White House Conference on Education." CIO Department of Education and Research. New York State AFL-CIO Records; WAG 031; box 4; folder 27; Tamiment Library / Robert F. Wagner Labor Archives, New York University.

regressive tax sources, meaning that even if states increased their tax effort and commitment to funding social spending, they would do so at a high cost to low-income households. A chart included in the CIO background material for the White House Conference showed that while 59 percent of state taxes came from sales and excise taxes in 1954 (and only 7 percent came from income taxes on corporations), a full 83 percent of federal taxes came from income taxes on individuals and corporations). In a pamphlet called "How Fair are State and Local Taxes?" from a November 1954 *Economic Outlook* publication, the CIO noted that while federal outlays were starting to decline after the war, state and local collections were rising, with the consequence that an increasing share of the burden of financing the social welfare system in the United States lay on the shoulders of low- and moderate-income Americans. According to the CIO pamphlet, special interests representing the wealthy were aware of these tradeoffs. "[T]hey know that a dollar in taxes levied by the state and local governments cost the wealthy much less than a dollar collected by Uncle Sam. That is why they exert every effort to undermine the progressive nature of our federal tax structure and to cut federal grants-in-aid while, at the same time, they seek to maintain and extend the unfair tax systems of our state and local governments."²⁴

While progressives wanted to improve the progressivity of state and local taxes, they did not expect these taxes to shoulder a major portion of the fiscal responsibility for new social welfare spending. Hansen argued that states should abolish the sales taxes they had instituted during the Depression and increase their reliance on state-level personal income taxes. He suggested that these income taxes could be collected by the federal government as "supplements" to the federal income tax and remitted back to states in amounts that depended on the rate each state decided to set (Hansen and Perloff 1944: 263-268). Importantly, this proposal did not include central pooling and redistribution of these income tax revenues; instead, the federal government merely acted as a collection agent for income taxes levied by the states. AFL-CIO economist Frank Fernbach argued that even if states could somehow raise 80 percent of their revenue from progressive sources, the labor group would still favor federal grant programs because there was simply not enough fiscal capacity in poorer states to raise sufficient revenue for these services, no matter the type of tax instrument they used. Andrew Biemiller, the AFL-CIO's director of legislation, was adamant that even if state and local governments made "substantial progress" in addressing their manifold

²⁴ "How Fair Are State and Local Taxes?" Pamphlet No. 261, November 1954. Included in "Background Materials for the White House Conference on Education." CIO Department of Education and Research. New York State AFL-CIO Records; WAG 031; box 4; folder 27; Tamiment Library / Robert F. Wagner Labor Archives, New York University.

shortcomings, the federal government should continue to play a major role in providing services.²⁵

Progressive public finance experts and their labor allies had two main objections to the use of federal tax sharing as a major strategy for alleviating inequities in state fiscal capacity and increasing the resources available to all state and local governments. First, they felt that tax sharing tied the availability of revenues to the yield of specific taxes, potentially duplicating the problem of pro-cyclical revenue and expenditure behavior that currently plagued state governments. In the early 1940s, the Treasury Department hired university professors Harold Groves, Mabel Newcomer, and Luther Gulick to write a report presenting postwar plans for intergovernmental fiscal relations. Groves, who led the preparation of the study, was a professor of economics at the University of Wisconsin-Madison when he accepted the Treasury assignment, and he had previously served several terms as a Progressive in the Wisconsin state legislature, where he championed the use of the income tax to generate state taxes on an “ability to pay” basis (Groves 1969: 151; Stark 1991). In the years immediately prior to coming to Washington to work on the Treasury study, Groves served as dissertation supervisor at the University of Wisconsin for both Walter Heller and Joseph Pechman, the future architects of the revenue sharing plan to be developed in the mid-1960s. But Groves himself was skeptical about the utility of tax sharing as method to address weaknesses in state fiscal capacity. Under a system like the one proposed by the Graves-Edmonds plan, revenue available for distribution to the states was tied to the yield of specific taxes, which could fluctuate from year to year depending on economic conditions. Groves felt this made shared taxes a “less dependable revenue source” than grants-in-aid. These fluctuations also made it difficult to distribute revenues on the basis of need, since needs would tend to rise just as revenues declined.²⁶

The Treasury report, published in 1943, dismissed the type of tax sharing practiced abroad as inappropriate for the American context, observing that the “tradition of local and State autonomy was probably less highly developed” in Canada and Australia than the United States and contending that the “Federal Government has enough on its hands for the present without assuming the responsibility for State

²⁵ *Hearings Before a Subcommittee of the Committee on Government Operations*. House of Representatives, 85th Congress, First Session. July 29-31, 1957, p. 162. Of course another key reason that labor groups supported a major federal role in public spending and tax policy was their feeling that they wielded substantially less influence in the halls of state capitols than in Washington (169).

²⁶ Groves later commented that some critics of the 1943 Treasury study felt that it missed an opportunity to recommend a program of block grants or “general grants” to the states (Groves 1969: 151).

finances.”²⁷ A follow-up study by the Treasury Department, published in 1952, noted that both Australia and Canada had recently taken steps to establish postwar fiscal arrangements that preserved federal use of the income tax in exchange for substantial grants to compensate subnational governments for the loss of this tax instrument. But the Treasury reiterated that these techniques were “not necessarily relevant to the United States because of vastly different conditions in those countries, including important differences in the historical relationships between Federal and State (or provincial) governments” (U.S. Department of Treasury 1952: 37-38).²⁸

Second, and more significant for progressives, was the fact that shared taxes were typically distributed with no strings attached, while grants-in-aid could be used to stimulate certain activities by state governments or ensure national minimum standards (Groves 1945: 525-527). Progressives saw tax sharing as vulnerable to demands from states that they receive back all the tax revenue generated within their borders, regardless of their actual need (or that of their neighbors). After all, a substantial portion of the tax revenue that state governments shared with local governments was handled in this manner. Mabel Newcomer, an economist at Vassar College and one of the authors of the 1943 Treasury study, found that 57 percent of shared tax revenue at the state level was returned directly to its community of origin (National Tax Association 1936: 280). Newcomer concluded that “if needs are to be considered, the grant is a better tool. The grant is also better adapted than the shared tax to the central control which is demanded as soon as revenue distributions in any form become an important factor in government finances” (280). Given their interest in ensuring national minimums for social welfare programs and reducing disparities among states, progressive saw grants as a more reliable method of securing these goals.

²⁷ S. Doc. No. 69, 78th Congress, 1st Session, p. 2. The main recommendation of the 1943 Treasury report was the establishment of a “federal-state fiscal authority” that could facilitate interstate cooperation with regard to tax policies, conduct research on intergovernmental fiscal issues, and serve as a clearinghouse for information and proposals related to policies at all levels of government.

²⁸ In an interesting exception to this lack of progressive interest in tax sharing, Reuther and the CIO called for funding federal aid to education by sharing with all the states revenue generated from federal ownership of submerged offshore oil fields, also known as the “tidelands.” The question of ownership of the tidelands was the basis for one of the bitterest contestations over federalism during the postwar period. Texas, which had the richest mineral deposits located in the disputed offshore region of any state and which played a leading role in rallying state opposition to federal ownership claims, had passed a law in 1939 dedicating revenue from the lease of drilling rights to a state school fund (Pack 1979: 20). Rather than allowing a few states to capture the financial benefits of these mineral deposits, the CIO advocated federal pooling of leasing revenues, with the funds to be redistributed to all states. “Excerpts of an address prepared for delivery before the convention of the American Association of School Administrators, Atlantic City, NJ, by President Walter P. Reuther of the Congress of Industrial Organizations.” February 18, 1953. New York State AFL-CIO Records; WAG 031; box 4; folder 30; Tamiment Library / Robert F. Wagner Labor Archives, New York University.

However, progressive interests ultimately had another, more political reason to mistrust the idea of shared taxes: the idea of state government “fiscal independence” was strongly associated with state and local control over social welfare programs. The Graves-Edmonds plan had explicitly highlighted local control as key strength of tax sharing (even though its arguments proved unpersuasive to conservative critics within the National Tax Association). Indeed, throughout the 1940s and 1950s conservatives and business interests strongly championed state government “fiscal independence” as a means of combating the growth of the liberal state and reducing social welfare expenditures.

Conservative Calls for Rebalancing Federalism

Conservatives, including many governors and business interests, viewed deficiencies in state fiscal capacity as a consequence of the unprecedented centralization of revenues by the national government. They argued the federal government should eliminate or reduce many of the excise taxes they had adopted to fund the war effort and which were supposedly crowding out states’ ability to generate revenue from traditional revenue sources. Addressing “tax overlapping” would free up revenue sources for the states and therefore mean that states had the resources to take over federal grant programs and fund them at the state level.

Governors and Tax Overlapping

Governors advanced a more moderate version of the tax overlapping argument than the radical decentralization arguments proposed by business interests. Among governors, the most prominent supporters of ending tax overlapping in exchange for control over grant programs were liberal Republicans such as Thomas Dewey of New York, Alfred Driscoll of New Jersey, and Walter Kohler of Wisconsin.²⁹ Governors like Dewey and Driscoll saw proposals to end tax overlapping as a way to restore states’ rights and push back against the totalizing federal government that had developed during the war years. However, they also fully envisioned states undertaking robust

²⁹ Ending “tax overlapping” as a way to address state fiscal capacity woes was also supported by some Democrats during this period. For instance, at the 1945 Governors’ Conference meeting, Massachusetts Governor Maurice Tobin (a Democrat) asserted: “Despite the enormity of the problem, it is possible to allocate definite fields of taxation to the federal government on one hand and to the state and local governments on the other in such a fair distribution as to enable all agencies of government to live up to their obligations to the American people [. . .]” (The Governor’s Conference 1945: 27).

investments of their own to meet demands for public services.³⁰ Both Dewey and Driscoll had criticized the rise of the powerful New Deal-era federal government, but governed wealthy states that received relatively small amounts of federal aid compared to own-source revenues — and would benefit greatly under any proposal to return tax sources to the states because they enjoyed robust tax bases.³¹

The first major effort at developing specific proposals to reallocate taxes and responsibilities among different levels of government occurred through the Joint Conference on Federal-State Relations, a group coordinated by the Council of State Governments and composed of governors and members of Congress. In a series of meetings lasting into 1948, the Joint Conference prepared a report to Congress with recommendations for reducing tax overlapping among different levels of government and developing more specific plans for how a transfer of revenue and responsibilities between state and federal governments could be carried out.³² This latter step took the form of a resolution, adopted in August 1948 “after a long and rather difficult session,” that called for a 20 percent reduction in federal grants-in-aid to the states (The Governor’s Conference 1949: 110). The resolution also reiterated that the federal

³⁰ “Each branch of government should be free from domination or encroachment by others,” Dewey proclaimed in his 1943 inaugural address. While the war had led to “an altogether unprecedented expansion of Federal activities on the economic and social welfare fronts,” states would need to take on new responsibilities in the postwar era and should refuse to surrender them to the federal government (State of New York 1944: 13-14). Dewey cut business and individual taxes in New York during his tenure as governor, but revenue collections continued to increase as a result of inflation and growing incomes. An inability to make capital investments due to wartime materials shortages also helped produce budget surpluses during the 1940s that Dewey directed toward education, highway construction, and state aid to localities (Smith 1982: 362-366, 443, 453-455, 472-474, 549-550).

³¹ Average per capita income in the United States was \$1,200 in 1946, but \$1,633 in New York and \$1,494 in New Jersey. New York and New Jersey ranked 47th and 48th in the nation, respectively, in terms of federal aid received as a share of state revenue. Council on State Governments. *Federal-State Relations*. Report of the Commission on Organization of the Executive Branch of Government. Senate Document No. 81. 81st Congress, 1st Session, p. 50.

³² Fifteen governors attended the first Joint Conference meeting in September 1947, along with ten members of the House Committee on Ways and Means and Expenditures in the Executive Department and six members of the Senate Committee on Expenditures in the Executive Department. In September 1947, the Joint Conference first approved a set of recommendations urging the reduction of federal excise taxes and revisions in other tax provisions affecting state governments. The recommendations also called on states to avoid encroachment on tax fields particularly suited to federal use. These actions are described in *Activities of the Senate Committee on Expenditures in the Executive Departments*, Eightieth Congress. 81st Congress, 1st Session. Senate Document No. 4. January 13, 1949, p. 34. The report itself was published as: *Coordination of Federal and State Taxes*, 80th Congress, 2nd Session, Senate Document No. 1054. April 2, 1948. This report largely reiterated the broad recommendations made in 1947 and provided members of Congress with detailed tables setting forth the federal revenue collected through various excise taxes and the amount each state could benefit from the return of federal revenue.

government must “withdraw from or reduce rates in connection with certain tax fields that can best be used by state and local governments.”³³

These early efforts by the Joint Conference were limited to broad strokes (no effort was made to determine where the 20 percent cuts in federal grants would occur, for instance) and the recommendations found little purchase among the broader group of governors. During the 1948 Governor’s Conference meeting when the work of the Joint Conference was discussed, Governor Dewey explained that he had asked Governor Driscoll to draw up a list of taxes that should be under consideration as part of the effort to develop “tacit or legal agreements allocating [each type of tax] to the respective units of government” (The Governor’s Conference 1947: 52). Driscoll rattled off a prodigious list of taxes that he thought should be abandoned by the federal government and turned over to the states (some immediately and others over a period of years): alcoholic beverage taxes, estate and inheritance taxes, the gasoline tax, and luxury taxes such as the amusement and admissions taxes (54-55). Driscoll went on to explain that “states must be prepared to make certain concessions to the federal government,” and so he urged them to consider withdrawing from individual and corporate income taxation and leave those tax sources to the federal government as well (55). Since the same level of government that imposed the income tax was best suited to impose the sales tax, Driscoll suggested that the sales tax too be left to the federal government (63).

Unsurprisingly, governors from states that were less dependent on what Driscoll labelled “federal” taxes expressed the most support for the allocation scheme.³⁴ Governors from both Florida and Wyoming (neither of which levied an individual or corporate income tax) agreed that income taxes could be reserved for the federal government, and Governor Hildreth of Maine (where a general sales tax would not be adopted until 1951) indicated he was amenable to surrendering sales taxes to the federal government (57-63). Driscoll’s own state, of course, levied neither the income tax nor the sales tax, making his proposal relatively painless for New Jersey taxpayers and the

³³ According to an explanation from Frank Bane, the Secretary-Treasurer of the Governor’s Conference, the taxes under consideration currently generated about \$700 million for the federal government, while a 20% reduction in federal grants would amount to a cut of about \$500 million. This shift was therefore considered “a fairly good trade” for the states by the federal and state officials who had met to discuss options (The Governor’s Conference 1949: 115).

³⁴ In 1947, almost every state in the nation would have to surrender a major tax to the federal government in exchange for access to the excise and inheritance taxes Driscoll identified as more appropriate for state and local usage. Seventeen states already used both the individual income and the sales tax, another sixteen used only the individual income tax, and twelve states used only the general sales tax. Quick calculation; these figures may be off by one or two in each category.

state budget.³⁵ Dewey was the clear exception in this regard: he indicated that even though New York received a large amount of revenue from the income tax, he personally agreed “very strongly with the views which have been expressed that the income tax is basically federal. The federal government has almost completely pre-empted it, anyway, and therefore I believe we should surrender it to the federal government, and take in exchange — and I believe we could adequately compensate ourselves for loss of revenue — many of the local taxes” (64).³⁶ Of course, despite its heavy reliance on the income tax, New York’s wealth and large population put it in a better position than most states to generate substantial revenue from the excise and inheritance taxes that Driscoll recommended exchanging for the broad-based taxes.

However, other governors, including many Republicans, resisted Driscoll’s reform proposals. For some, the specific proposals came at too high a cost to their states. Releasing the sales tax to the federal government would “ruin my state of Michigan,” explained Governor Kim Sigler (76). Both Sigler and Governor Snell of Oregon (both Republicans) pointed out that their states had turned to broad-based taxes in part because of limitations on their property tax rates (76, 80). For other liberal Republicans like California governor Earl Warren (who would be Dewey’s running mate in 1948), the reform proposals failed to recognize the need for federal spending to support federal priorities across the states, including those that could not meet their costs from their own revenues. Warren criticized Driscoll’s 1947 proposal, saying that he would not be in favor of trading “those very substantial taxes — taxes that always maintain certain levels — for the various so-called ‘nuisance taxes’” on luxury items, amusements, and liquor that could undermine the financial stability of the state (88). He also criticized the subsequent proposal from the Joint Conference on Federal-State Relations to cut federal grants by 20 percent while withdrawing from certain tax fields arguing: “We find it rather easy to generalize, but when we get down to cases and try to find out who is going to give up what, we just don’t have any meeting of minds” (The Governor’s Conference 1949: 114). He pointed out that he could name any grants program and “you’d find in some parts of the country where a thing isn’t particularly needed that it would be thought: ‘That’s the thing to give up,’” while other states saw these issues as cross-jurisdictional concerns that required federal assistance (114).

³⁵ New Jersey adopted the corporate income tax in 1958 and the general sales tax in 1966. The state adopted an individual income tax in 1976, making it the last state to do so with the exception of Connecticut, which converted an existing tax on capital gains into a full income tax in 1991.

³⁶ States like New York with large, wealthier populations would in fact be able to generate more revenue from the mixture of taxes that Driscoll proposed exchanging for the income and sales taxes, and New York was well-positioned to fund many of the federal grant programs commonly discussed as prospects for state control. New York did not yet have a sales tax in 1947; it would adopt one in 1965 under Governor Nelson Rockefeller.

Governors from southern states also expressed reservations about proposals that would eliminate important sources of state revenue or potentially result in less generous federal grants. Governor Melvin Thompson of Georgia said handing over the state income tax to the federal government (as Driscoll proposed) would cost his state about 15 percent of its revenue, “and we need more instead of less” (The Governor’s Conference 1947: 70). He expressed his concern about the growing popularity of the idea of “shifting from the federal to the state government, and then from the state to local units, the responsibility of handling the funds,” and noted that most local governments in Georgia could not fund needed public services unless they continued to receive “substantial aid from the state and federal governments” (70). Governor Laney of Arkansas also remarked on the increased public demand for services and argued they had to be met by taxes at some level of government. “If we are going to meet those demands — regardless of who administers the expenditure of the funds — what difference does it make as to the source from which the funds come?” (71). Governor Forest Smith was frank that federal aid was helping him keep state taxes low in Missouri: “We do not need to increase taxes in Missouri, but we're glad to receive the social security and highway money from Washington, because it would be an extremely heavy burden for our state to carry if we did not receive any assistance [. . .] It's a very heavy load, and unless we would get some assistance from the government, in place of trying to reduce taxes in Missouri we'd be faced with the embarrassment of seeking new taxes, or increasing the rate that we now have” (The Governor’s Conference 1952: 26).

Democratic governors of northern states often joined in criticisms of the growing imbalances in intergovernmental fiscal relationships, but they also saw federal spending as a crucial source of support. Northern Democrats were also much more likely to point out that the growth of federal power had come in response to state deficiencies, as well as the fact that federal solutions were often the only way to overcome the disincentive to tax and develop generous social programs that was the consequence of fiscal federalism. For instance, Governor Adlai Stevenson responded to the 1949 debate over reducing federal grants by 20 percent in exchange for access to tax sources: “We must admit, I think, in all honesty that in some instances the federal government has acted as a lever to get us going. If we agree that all the citizens of this great land are entitled to an equal opportunity, we must also admit that only through assistance by the entire country could some areas provide these essential minimums. And further, because of the mobility of wealth and industry, the money which must be raised to support these programs, most particularly the individual and corporate income taxes, must be levied on a national basis” (The Governor’s Conference 1949: 121-2). Similarly, Michigan Governor Williams pointed out during a 1952 discussion that while many states may in principle want to levy taxes to support the same level of services now funded by the

federal government, they also faced the pressure of interstate competition if they had to levy taxes to fund these services at the state level (The Governor's Conference 1952: 29).

The proposals developed by the Joint Conference on Federal-State Relations were never adopted, and later efforts by the governors to craft legislation aimed at ending tax overlapping were also unsuccessful. Speaking to the 1957 Governors' Conference meeting in Williamsburg, Virginia, President Eisenhower warned against the perils of centralized government and suggested that "if present trends continue, the states are sure to degenerate into powerless satellites of the national government in Washington" (The Governor's Conference 1957: 95). He exhorted states to work directly with the federal government to overhaul existing tax and fiscal systems in order to strengthen states' abilities to meet their responsibilities and called for the creation of a task force that could make recommendations for carrying out these changes. The newly-created Joint Federal-State Relations Task Force was charged both with identifying functions that states were ready to assume and with recommending state and federal revenue adjustments that would enable states to take on these functions. "As a first step," Eisenhower told the governors, "the committee might well concentrate on a single function or program and pair it with a specific federal tax or tax amount" (99).

The governors' efforts to develop specific proposals to trade access to federal tax sources for control over spending programs revealed how, even after a decade of such debates, they had not yet come to terms with variations in state fiscal capacity that — absent an equalization framework — made such trades inherently unworkable. A few years earlier, at the 1952 Governors' Conference, Wisconsin Governor Walter Kohler had attempted to stimulate renewed discussion on the net fiscal effects of a trade between federal tax sources and state control over grant programs. Kohler announced that he had prepared a table showing the net effect of each state giving up all its federal aid in exchange for the federal government either issuing a rebate to each state for all the revenue collected on "gasoline, malt beverages, distilled spirits, wine and cigarettes," or simply abandoning these tax fields and allowing states to levy their own taxes on these items (The Governor's Conference 1952: 16). Under Kohler's proposal, seven states would end up worse off, receiving less revenue from the abandonment of these tax sources than the price tag for federal grant programs in their state. Unsurprisingly, all of these seven states — Arkansas (amount unspecified), Kansas (\$5 million deficit), Louisiana (\$6 million), Mississippi (\$7 million), New Mexico (\$5 million), Oklahoma (\$39 million), Utah (\$2 million), and Wyoming (\$5 million) — were western or southern states with small, relatively poor populations (17-18).³⁷

Perhaps reflecting how many governors already viewed such an idea as implausible, given that the plan's "losers" would block its adoption, little discussion

³⁷ Kohler had also prepared a separate table tallying up the effects of also including revenue from federal automobile excise taxes, which he said would only leave two states in the red. These states are not identified in the Governor's Conference transcripts.

during the 1952 conference focused on the specific terms of Kohler's table. However, the exact same problem would soon rear its head in the work of the Joint Federal-State Action Committee. During its first set of meetings in 1957, the Committee identified various vocational education programs and funding for municipal waste treatment plants as prime candidates for ending federal grant funding and turning over financial responsibility for these programs to the states (Joint Federal-State Action Committee 1957: 29-31). In exchange, the Committee recommended turning over revenue from the federal tax on local telephone service to the states, at first through a federal tax credit and then through a permanent reduction in the federal tax rate, allowing states to raise their own taxes on local telephone service and claim more of the revenue for their own uses. The Committee further identified a list of other taxes that could receive similar treatment, including the estate tax, the cigarette tax, and miscellaneous excise taxes (36), as well as federal grant programs that could also be candidates for state responsibility: the school lunch program, old-age assistance, civil defense, low-rent housing, and the forestry grant program (36-37).

The Committee's recommendations on grant programs and the local telephone tax were included in President Eisenhower's budget message to Congress in January 1958, and a bill was introduced in the House in May, but Congress ultimately took no action on these recommendations (Joint Federal-State Action Committee 1958: 83). More importantly, reaction to the initial set of recommendations on the part of the broader Governors' Conference was rocky. Just as in Kohler's 1952 proposal, some states would emerge as net winners from the Committee's proposals while others would have to take on more in new costs to run federal grant programs than they would receive in new revenue from the local telephone service tax. Federal grant programs allocated funds on the basis of population and per capita income, therefore benefiting low-income states relatively more than high-income states. Yet any tax source released to the states was bound to generate more revenue in wealthier states than in poor states (The Governor's Conference 1958: 10). As a result, the Committee's proposal tended to hurt poorer, less populated states, which would have to shoulder new costs in order to maintain the vocational education and municipal waste treatment plant programs that were currently subsidized by the federal government. Wyoming Governor Milward Simpson noted that while 70 percent of the total tax revenue turned back to the states would go to the twelve largest and wealthiest states, his state would receive a decrease of \$434,000 under the proposal. "That probably doesn't worry you too much, but that is a lot of hay in Wyoming," he asserted (38).

Despite the urging of Committee member Governor Robert Smylie of Idaho that "we can't look at this thing solely in terms of dollars and cents," governors were ultimately unwilling to endorse a proposal that might cost them money (16). The governors approved a resolution cautioning that implementation of the Committee's recommendations regarding the termination of federal funding for certain programs in

exchange for greater revenue from the local telephone tax should only be undertaken if adequate time could be given for an adjustment process and, crucially, only if the tax-relinquishment scheme could be modified “to insure that the revenue source made available to each state is substantially equivalent to the costs of the functions to be assumed” (164).

The Joint Federal-State Action Committee responded to the governors’ concerns by amending its proposal related to the local telephone service tax so that low-income states would receive a greater share of the relinquished revenue (Joint Federal State Action Committee 1958: 86-87). Compared to the original proposal, the amendments provided a smaller credit against the federal tax to all states but then distributed the remaining portion of the total revenue solely to low-income states. The Committee disseminated its second progress report, including these amendments, to the members of the Governors’ Conference in December 1958. However, before the governors convened for their next annual meeting in August 1959 to discuss these changes, Congress repealed the local telephone service tax in an act extending certain corporate and excise tax rates (The Governor’s Conference 1959: 187). Because the new proposal developed by the Joint Federal-State Action Committee had relied on the existence of a federal tax on local telephone service in order to generate revenue that could be used for equalization, the governors’ plan fell apart as a result of this Congressional action. As Governor Smylie of Idaho put it, “The Congress destroyed the ‘quid’ on which the ‘quo’ was based. The subject is closed” (121). In its final report from 1960, the Joint Federal-State Action Committee glumly requested its own dissolution. As long as administrative and financial capacity remained uneven among the states, the report warned, “resistance to decentralization becomes formidable, and the pressures for further centralization grow in strength” (Joint Federal-State Action Committee 1960: 6).

Conservative Business Interests

In contrast to the more moderate position of many governors, business interests viewed state and local tax systems less as a substitute for federal financing of the welfare state and more as a critical brake on out-of-control federal spending. The limited fiscal capacity of state governments was, from this perspective, an important weapon in the broader battle to reduce the size of American government and social spending. Testifying before the Intergovernmental Relations Subcommittee of the House Committee on Government Operations in July 1957, President of the U.S. Chamber of Commerce Philip Talbott cautioned that “not all problems which are nationwide in character are necessarily proper subjects for the exercise of power of the National Government.”³⁸ As others had asserted before him, Talbott insisted that if

³⁸ *Hearings Before a Subcommittee of the Committee on Government Operations*. House of Representatives, 85th Congress, First Session. July 29-31, 1957, p. 53-60.

certain federal revenue sources were turned back to the states, states could also take over responsibility for grant programs currently administered and funded at the federal level. But what did state responsibility look like? Talbott's list of programs ripe for decentralization was vast, including pollution control, urban renewal, public housing, sewage treatment plant construction, and even old-age assistance. Talbott also enumerated a list of federal taxes that should be turned over to the states, including taxes on admission, local telephone service, coin-operated amusement and gaming devices, leases of safety deposit boxes, bowling alleys, and pool tables, as well as club dues and initiation fees, the unemployment tax, and the estate and gift tax. The National Association of Manufacturers' (NAM) went even further than the Chamber of Commerce, stating that federal collaboration with state and local governments should extend no further than "leadership through research and advice" and should not involve federal subsidies or payments.³⁹ The entire federal grants-in-aid program should be terminated, explained Dr. Harley Lutz, a consultant on government finance for NAM, at the subcommittee hearings, and the corresponding reduction in federal tax load would free up tax resources for state use.

Business interests were unconcerned with whether state and local governments could actually fund these programs because they in fact expected social spending to shrink dramatically once it was financed by state and local taxes. Under questioning from skeptical committee members, Talbott admitted that the Chamber had not yet made an estimate of the total revenue that states could raise from the federal taxes he proposed turning back to the states (or how this revenue compared to the amount of federal aid expended on the programs he had identified) but expressed confidence that states would be willing and able to take responsibility for federal programs to the extent that they were truly needed to create a desirable climate for attracting business and industry (61, 77). "Just how any particular State would obtain funds from its citizens for these programs should be entirely a matter of State-local determination," the NAM's Lutz asserted during the same hearings (141). When asked whether states would really raise needed revenue or whether, fueled by interstate fiscal competition, they would instead seek to further lower their own taxes in a bid to attract industry, Lutz airily dismissed the concern: "There isn't any reason to believe that their revenues would shrink by reducing the taxes [. . .] I wouldn't worry about a State losing revenue by cutting tax rates" (147-148). States that lowered their taxes would attract business investment, and the continuing economic growth of the country would provide a growing tax base for states to fund public services, he asserted.

³⁹ *Hearings Before a Subcommittee of the Committee on Government Operations*. House of Representatives, 85th Congress, First Session. July 29-31, 1957, p. 139.

The Exception to the Rule: Liberal Support for Tax Sharing in 1964

During the 1960s, a group of Keynesian public finance experts embraced tax sharing as a tool for consolidating the New Deal state, but their enthusiasm for establishing a system of no-strings fiscal support to state governments proved to be a rare moment when this type of policy was championed by liberal interests. Between 1961 and 1964, Walter Heller and his fellow “New Economists” on the Council of Economic Advisers had successfully advocated for federal income tax cuts to spur economic growth (Bernstein 2001: 133-138). Heller saw revenue sharing as the next step in establishing a modern fiscal politics that would help stabilize the economy and promote sustainable growth. The 1964 tax cut had reduced Americans’ federal taxes, but according to Heller “the fiscal problem that most bears in on people’s pocketbooks and mentalities and brings about the most woes is the state and local fiscal problem” (Heller 1971: 67). Heller saw revenue sharing as a solution to the “two faces of Janus” born out of economic prosperity. At the national level, the progressive tax system, the “modern fiscal management” over which the Keynesian economists had proudly presided, and economic growth had given rise to a revenue base that grew faster than demands for public services. Yet, at the state level, the “whiplash of prosperity” had produced a situation in which “responsibilities are outstripping revenues” (Heller 1967: 118). Heller also pointed out “large disparities in economic and hence taxable capacity among the states” (136). The solution, according to Heller, was to establish a national trust fund into which one to two percent of the federal individual income tax base would be set aside each year and then distributed to the states on a per capita basis (some portion of the funds could also be designated for supplements to high-need states). Heller was clear that he saw revenue sharing as an additional, complementary program that would come on top of existing, conditional grants-in-aid (141-144).

In May 1964, Heller wrote a memo for President Johnson titled “Federal Relief for State and Local Taxpayers” that endorsed the idea of funneling national revenues to state governments in order to relieve the strains on state and local budgets (Pechman 1969: 10). He also proposed a task force that could study how to “use [. . .] the fiscal system more positively” (Heller 1971: 67). After Johnson endorsed the idea, Heller suggested that he appoint Joseph Pechman as the head of the Task Force on Intergovernmental Fiscal Relations, part of a set of task forces being established by Bill Moyers to prepare domestic policy ideas for after the 1964 election. Pechman and Heller had been graduate students in economics together at the University of Wisconsin-Madison where they shared an adviser, a prominent public finance economist named

Harold M. Groves.⁴⁰ In addition to representatives from the Bureau of the Budget, the CEA, and the Treasury Department, the task force included L. Laszlo Ecker-Racz from the ACIR and Alice Rivlin from Brookings.⁴¹ Pechman, Rivlin, and Ecker-Racz wrote the final report of the task force, which recommended the establishment of a revenue-sharing program to distribute federal revenues to state governments (Pechman 1969: 11-12; Clark 1985: 84).

However, the Keynesian economists' support for tax sharing was always the exception to a more general rule: that liberals distrusted the idea of sending unrestricted funds to state and local governments. The draft report on revenue sharing was sent to the President in late October 1964, but it was never to see the light of day. As part of an effort to promote Johnson's domestic policy agenda heading into the election, Heller gave a background interview to journalist Edwin Dale of the *New York Times* about the revenue sharing plan, on the condition that the plan was not linked directly to the President. The next day, the paper ran a front-page story with the headline, "President Favors Giving the States Share of Revenue" (Dale 1964). According to Heller, he had been "double-crossed" by Dale, and it was not long before "the you-know-what struck the fan" (Heller 1971: 71). Labor groups were furious over the idea. George Meany of the AFL-CIO and Secretary of Labor G. Willard Wirtz expressed strenuous objections to the idea of sending money to state governments. According to Pechman, labor "regard[ed], to a large extent correctly, state government[s] as being anachronisms which the nation would be better rid of them rather than have them as they are" (Pechman 1969: 14). The leak also provoked opposition from others within the Johnson administration, particularly at the Treasury Department and the Health, Education, and Welfare Department (15). Moyers ordered that all remaining copies of the report be returned to him, and the report was never released.

Indeed, at the same time that Keynesian economists within the Johnson administration were pushing for the establishment of revenue sharing as a way to

⁴⁰ After World War II, Heller recruited Pechman to join the Office of Tax Analysis in the Treasury Department, where Heller was working as the assistant director of the Division of Tax Research. Pechman moved on to work at the Committee for Economic Development (a progressive business group where his former adviser Groves had also worked) and then the Brookings Institution, where he continued to consult for the Treasury Department and the Council of Economic Advisors (CEA). Meanwhile, Heller became a professor at the University of Minnesota until he was recruited by President Kennedy in 1960 to become chairman of the CEA (Barber 1987; Stark 1991). Oral History Transcript, Joseph Pechman, AC 75-8, Interview 1, David McComb, LBJ Presidential Library Oral Histories, LBJ Presidential Library, accessed November 11, 2014, <http://transition.lbjlibrary.org/items/show/70932>.

⁴¹ Pechman recounts the full composition of the task force, whose membership was at the time kept confidential, in his 1969 oral history for the Johnson Presidential Library: Samuel M. Cohn (Bureau of the Budget), Otto Eckstein (CEA), Robert S. Hermann (Assistant Director, Bureau of the Budget for the State of New York), Richard A. Musgrave (professor of economics at Princeton), and Jacob A. Stockfish (Director of Tax Analysis at the Treasury Department).

dramatically augment state budgets and provide a stable fiscal foundation for the liberal welfare state, conservatives were beginning to see revenue sharing as a way to dismantle the federal grants system. During the summer of 1964, as Pechman's Task Force on Intergovernmental Fiscal Relations was assembling its report recommending federal revenue sharing, the ranking minority member on the Fiscal Policy Subcommittee of the Joint Economic Committee, Representative Thomas Curtis (R-MO), wrote to conservative economist Roger Freeman at the Hoover Institution for advice on the idea of revenue sharing.⁴² Freeman was skeptical of the plan on several fronts. He doubted that the prophesied budget surplus would actually materialize since domestic social expenditures were growing quickly. If such a surplus were somehow forthcoming, Freeman urged Curtis to instead advocate for paying down the national debt, reducing federal income tax rates, or providing federal income tax credits for local school taxes or other educational expenses. A "system of fiscal grants to the states" might well be appropriate, Freeman wrote, but it "should be viewed not as an added expenditure of federal treasury funds but rather in lieu of grants-in-aid" (emphasis original).⁴³

Conservatives seized on the revenue sharing plan as a way not to augment federal grants-in-aid to the states but rather to *replace* them. In November 1966, Representative Charles Goodell (R-NY) released a report titled, "A Proposal for General Aid to State and Local Governments through Sharing of Federal Taxes," based on a study conducted by another Brookings economist, Richard P. Nathan.⁴⁴ Nathan had worked on the study while finishing his PhD at Harvard, having returned to graduate study after serving as the director for domestic policy research on Nelson Rockefeller's national campaign staff for the 1964 election. His doctoral dissertation was heavily influenced by the 1964 debates over the Heller-Pechman plan and investigated intergovernmental fiscal relations particularly as they pertained to low-income states.⁴⁵ The Goodell report noted that its revenue sharing proposal was "not offered as a substitute for any existing programs although in time it may permit reduction of some of them." However, it also stated that the revenue sharing approach was "far preferable to the further enlargement of a 'Great Society' in which innovation can only come from the top [. . .]." In contrast to Heller's proposal, which sent money only to state

⁴² Letter from Thomas B. Curtis to Roger A. Freeman, July 7, 1964. Box 22, Folder "Fiscal Grants to States, Memo for Tom Curtis, Aug 1964." RAF.

⁴³ Memo from Roger A. Freeman to Thomas B. Curtis, August 14, 1964. Box 22, Folder "Fiscal Grants to States, Memo for Tom Curtis, Aug 1964." RAF.

⁴⁴ Press release, November 27, 1966. Box 128, Folder "IV. E. 1. General Fiscal Aid, Tax Redistribution, Tax Credits, In Lieu Payments to 1966." RAF.

⁴⁵ Thesis Research Project Summary, June 18, 1965. Box 8, Folder "Thesis Project Summary." RPN.

governments and left any further redistribution decisions up to them, Goodell's plan would funnel almost half of the program's funds directly to local governments.

By 1966, Freeman was more enthusiastic about revenue sharing, which he had come to see as a way to decentralize spending decisions by returning them to the state and local level. In a December 1966 memo to William J. Baroody, Jr., then a legislative assistant to Representative Melvin Laird (R-WI), Freeman advocated for a "quid pro quo, a gradual reduction and repeal of programmatic grants as funds are provided on a discretionary basis."⁴⁶ Baroody responded by asking Freeman to develop a longer analysis of revenue sharing that might be released by the House Republican Conference.⁴⁷ Instead, in March 1967, Freeman was brought on by the Republican Coordinating Committee to chair a special study group on revenue sharing.⁴⁸ The goal of the study group was to put together a report on revenue sharing that would stake out a Republican position on the issue.

Freeman was aware that not all Republicans — indeed, as he wrote to Bob McCormick, the research director at the Republican National Committee, not even all members of the special study group — agreed that revenue sharing was a good idea. Some Republicans saw it as an expansion of centralized government, while others recognized it as a practical policy solution but wanted more emphasis placed on reductions in the federal income tax.⁴⁹ However desirable it might be in principle to cut federal taxes, Freeman was concerned that this argument was simply unworkable in the context of large federal deficits. Instead, Freeman argued that the way to win over skeptics was to emphasize that the fiscal capacity problems of state government were due to an overwhelming federal tax burden, rather "than to inherent weakness of tax potential. It is just that the IRS gets there first and leaves little to the states." Most importantly, Freeman wrote, revenue sharing should be positioned as the key to the "demise" of the programmatic grant system. The "restoration of home rule, local autonomy, self determination, is the essence of [. . .] revenue sharing," he wrote to

⁴⁶ Memo from Roger A. Freeman to William J. Baroody, Jr., December 29, 1966. Box 28, Folder "Tax Sharing — Memo for Rep. Laird (Baroody, Jr.) Dec 29, 1966." RAF.

⁴⁷ Letter from William J. Baroody, Jr. to Roger A. Freeman, January 13, 1967. Box 28, Folder "Tax Sharing — Memo for Rep. Laird (Baroody, Jr.) Dec 29, 1966." RAF.

⁴⁸ The study group also included two former directors of the Bureau of the Budget (Maurice Stans and Percival Brundage), economics professor and expert on intergovernmental relations C. Lowell Harriss, former governors Robert Smylie (ID) and Henry Bellmon (OK), and Representatives John W. Byrnes (R-WI) and Robert Taft, Jr. (R-OH). Letter from Ray C. Bliss to Roger A. Freeman, March 1, 1967. Box 28, Folder "Study Group on Tax Sharing, Republican Coordinating Committee, February-March 1967." RAF. Republican Coordinating Committee Special Study Group on Revenue Sharing membership list. Box 28, Folder "Study Group on Tax Sharing, Republican Coordinating Committee, February-March 1967." RAF.

⁴⁹ Memo from Roger A. Freeman to Robert L. McCormick, March 6, 1967. Box 28, Folder "Study Group on Tax Sharing, Republican Coordinating Committee, February-March 1967." RAF.

McCormick, and the RCC report should emphasize this link in order to “appeal to [. . .] emotions and traditions.” Revenue sharing, in other words, would harness the power of centrally-collected funds in order to dismantle centralized authority.

Revenue Sharing in Congress, 1967-1972

Debates over revenue sharing legislation intensified in the late 1960s as fiscal pressures on state and local governments mounted. While governors had their differences on the issue, primarily in terms of the distribution of funds between cities and state governments and the allocation formula used to allocate funds to states, by the early 1970s they were solidly united in support for revenue sharing legislation. During the 1971 mid-year meeting of the National Governor’s Conference in Washington, the assembled governors expressed frustration with the legislation’s slow pace in Congress. When Governor McKeithen of Louisiana suggested it might be better to press for federal assumption of welfare costs as an alternative to revenue sharing, Washington’s governor, Daniel Evans, stood up and demanded if there were any governors present who would announce their opposition to revenue sharing. Missouri governor Warren Hearnes, who was chairing the session, posed the question to the group: “The governor of Washington is inquiring broadly of each and every one of his colleagues present at this table if any of his colleagues oppose revenue sharing, as outlined in our Subcommittee Report [. . .]” (The Governor’s Conference 1971: 34, 88-89). No governor spoke up to oppose the proposal, leading Governor Hearnes to conclude that “the position of the National Governor’s Conference has not changed” (93).

Reflecting the conservative embrace of the revenue sharing issue, most revenue-sharing bills introduced in Congress in the late 1960s were authored by Republicans. These proposals typically required that some percentage of the federal tax base (usually limited to federal income tax collections, although sometimes other taxes were specified) be set aside and returned to state governments, usually with no conditions attached to how the money must be spent (Legislative Reference Service 1967a: 2-3). Allocation formulas governing the disbursement of funds to state governments were generally based on a combination of three factors: population, per capita income, and the tax effort of state and local governments (3-4). In an echo of earlier efforts to end “tax overlapping” during the 1950s and early 1960s, some Republican revenue-sharing proposals included provisions for substantial increases in the share of federal revenues returned to the states over time, sometimes in conjunction with the abolishment of existing federal categorical grant programs. Other Republican measures called for returning at least a portion of federal revenues to states based on where the revenues had been collected, rather than on the basis of the state’s income or tax effort. So, for instance, Florida would receive a certain percentage of federal income tax revenue paid by Florida taxpayers, while New York would receive a percentage of federal income tax

revenue paid by New York taxpayers.⁵⁰ Most of these bills were introduced by members of Congress from large, relatively wealthy states — such as Ohio, Illinois or Florida — that would benefit most from this provision since residents in these states paid more in federal income taxes than the residents of poor, rural states.⁵¹

Liberals, however, remained internally divided over the merits of revenue sharing. Keynesian public finance experts continued to advocate for the adoption of revenue sharing as a way to relieve pressure on state and local governments. Walter Heller and Joseph Pechman testified in favor of revenue sharing legislation before

⁵⁰ Bills with these provisions followed on the recommendations of a March 1966 proposal from the Republican Coordinating Committee, which suggested a revenue sharing plan that would begin by sharing two percent of total federal tax collections from the personal and corporate income taxes with states and increase to ten percent of these revenues by 1975. Half of each state's share of these revenues would depend on the amount of such revenues collected within its borders, while the remainder would be designed to provide some measure of equalization, likely based on population or per capita income. "Financing the Future of Federalism: The Case for Revenue Sharing." Pamphlet from the Republican Coordinating Committee. Box 28, Folder "Study Group on Tax Sharing, Republican Coordinating Committee, February-March 1967." RAF. Roger Freeman was skeptical of the idea of returning revenue to the states where it was collected, noting that this tended to benefit wealthy states. He advocated using a per capita distribution formula, potentially supplemented with additional funds aimed at equalization for low-income states. However, he also argued in a letter to an aide to Representative Melvin Laird (R-WI) that questions of allocation were less important than establishing the general principle that revenue sharing was an attractive alternative to grants-in-aid. Memo from Roger A. Freeman to William J. Baroody, Jr., December 29, 1966. Box 28, Folder "Tax Sharing — Memo for Rep. Laird (Baroody, Jr.) Dec 29, 1966." RAF.

⁵¹ While the Legislative Reference Service's analyses of revenue sharing bills during the late 1960s and early 1970s are not comprehensive, they provide a guide to the major types of this legislation introduced during the 89th, 90th, and 91st Congress. In the 89th Congress, bills that would have returned federal revenues to its states of origin were introduced by: Representative Matthews (D-FL), Representative Teague (D-TX), Representative Poff (R-VA), Representative Bow (R-OH), Representative Berry (R-SD), Representative Derwinski (R-IL), Senator Cotton (R-NH), Representative Pirnie (R-NY), Representative Ashbrook (R-OH), Representative Bates (R-MA), Representative Skubitz (R-KS), Representative Dorn (D-SC), Representative Whitten (D-MS), Representative Laird (R-WI), Representative Battin (R-MT), Representative Wyatt (R-OR), and Representative Gubser (R-CA). A bill introduced by Representative Multer (D-NY) would have returned federal income tax revenue collected within the territories of local governments back to those governments (Legislative Reference Service 1967a). In the 90th Congress, such bills were introduced by Representative Poff (R-VA), Representative Derwinski (R-IL), Representative Fascell (D-FL), and Representative Whalley (R-PA) (Legislative Reference Service 1967b). In the 91st Congress, such bills were introduced by: Representative Derwinski (R-IL), Representative Whitten (D-MS), Representative Ashbrook (R-OH), and Representative Miller (R-OH) (Legislative Reference Service 1971).

Congress in 1969 and 1971.⁵² The staff at the Advisory Commission on Intergovernmental Relations was also heavily involved in the development of revenue sharing legislation. Some Democrats in Congress attempted to tie revenue sharing to state and local government modernization, and Democrats often preferred allocation formulas that gave more weight to state and local tax effort.⁵³ Some bills included provisions that provided a funding bonus to states that had adopted a progressive state income tax of their own. Unions representing public sector employees also supported revenue sharing with allocation based almost entirely on income-tax effort. AFSCME suggested that other factors could reward states with progressive rate structures for the income tax, sales tax credits for food and non-prescription drugs, and states that took steps to reform their property tax.⁵⁴

Skepticism of Liberal Coalition

Yet other members of the liberal coalition remained deeply skeptical of revenue sharing. The UAW and the AFL-CIO opposed revenue sharing because they worried that it represented a route to reduce funding for existing grant programs.⁵⁵ If the federal government wanted to relieve fiscal pressure on state and federal governments, argued Nat Weinberg, director of the special projects and economic analysis department of the UAW, it should focus on reforming and expanding *federal* anti-poverty initiatives (Subcommittee on Fiscal Policy 1967: 780).⁵⁶ The fact that state and local fiscal burdens were so heavy that these governments “are unable to carry them and in fact have not been carrying them,” Weinberg claimed, was a consequence of a sustained campaign by the business community to oppose “practically every move toward expansion of the Federal area of responsibility which would have helped to ease the burdens of State and

⁵² *Hearings Before the Subcommittee on Intergovernmental Relations of the Committee on Government Operations, United States Senate*. 91st Congress. Washington: U.S. Government Printing Office, p. 125-142. *Summary of Testimony on General Revenue Sharing at Public Hearings, June 2 to June 28, 1971. Committee on Ways and Means*. Washington: U.S. Government Printing Office, 21-22, 33-34.

⁵³ Representative Reuss (D-WI) introduced a revenue sharing bill that would make funds available only to those states that submitted plans for modernizing state and local government (Legislative Reference Service 1967b). In 1971, Reuss’ bill would also have required that states receiving revenue sharing funds levy an income tax “of at least moderate progressiveness” (Legislative Reference Service 1971: 59).

⁵⁴ *Summary of Testimony on the State and Local Fiscal Assistance Act of 1972 (H.R. 14370) at Public Hearings June 29, July 20, 21, and 25 to 27, 1972 held by the Committee on Finance*, p. 12-13.

⁵⁵ *Summary of Testimony on the State and Local Fiscal Assistance Act of 1972 (H.R. 14370) at Public Hearings June 29, July 20, 21, and 25 to 27, 1972 held by the Committee on Finance*, p. 2.

⁵⁶ Weinberg’s remarks were made in 1965 in response to a presentation by Joseph Pechman about revenue sharing at a symposium on federal taxation. The presentation and responses were reprinted in a volume prepared by the Subcommittee on Fiscal Policy in 1967.

local governments” (780). Labor was particularly opposed to giving federal funds to state and local governments with “no strings attached,” meaning local decision-makers could spend funds in ways that didn’t support national social policy priorities.⁵⁷ Unlike when Heller and Pechman had proposed revenue sharing in 1964, the federal budget situation in the early 1970s was no longer “one of excessive funds which must be given away lest the national economy come tottering downward,” the AFL-CIO noted in a 1969 statement opposing revenue sharing. “There is no reason to assume that 50 state legislatures and 81,000 localities are in a better position than the federal government to weigh and balance these critical national priorities and spend accordingly. If there is additional money available for the states and the cities, the first order of priorities should be to strengthen the present grant-in-aid programs.”⁵⁸

Labor also joined another key member of the liberal coalition — civil rights groups — in arguing that revenue sharing proposals could not offer sufficient guarantees funds would not be used in a discriminatory manner by state lawmakers. “The idea of sharing revenue with the State would be very desirable if we could rely upon them to handle funds in a nondiscriminatory manner,” wrote Clarence Mitchell, director of the Washington bureau of the NAACP.⁵⁹ However, Mitchell continued, when state governments in the South were given discretion over the distribution of public funds, they consistently used those funds in ways that denied benefits to black residents. Mitchell offered examples from Mississippi, Alabama and Texas — as well as one northern city, Milwaukee — to illustrate how public dollars continued to support segregated facilities and discrimination in the hiring of public employees. Along with the NAACP, the AFL-CIO questioned whether simply including language mandating that states must conform to equal-opportunity requirements in the use of revenue sharing funds would be sufficient to ensure these funds were distributed in a nondiscriminatory manner.⁶⁰

More broadly, civil rights groups saw revenue sharing as an effort to roll back specific elements of the Great Society programs that had targeted racial minorities and the urban poor and replace these categorical grants with discretionary funds that state and local governments would use to benefit middle-class white voters (Oates 1975: 4-5; Pressman 1975: 38). The Economic Opportunity Act of 1964, which established local

⁵⁷ *Hearings Before the Subcommittee on Intergovernmental Relations of the Committee on Government Operations, United States Senate*. 91st Congress. Washington: U.S. Government Printing Office, p. 344-348.

⁵⁸ *Hearings Before the Subcommittee on Intergovernmental Relations of the Committee on Government Operations, United States Senate*. 91st Congress. Washington: U.S. Government Printing Office, p. 346.

⁵⁹ *Hearings Before the Subcommittee on Intergovernmental Relations of the Committee on Government Operations, United States Senate*. 91st Congress. Washington: U.S. Government Printing Office, p. 342.

⁶⁰ *Hearings Before the Subcommittee on Intergovernmental Relations of the Committee on Government Operations, United States Senate*. 91st Congress. Washington: U.S. Government Printing Office, p. 346-347.

Community Action Agencies to fight poverty, had made grants available directly to these local organizations rather than routing them through more conservative state and city governments. According to Brown (1999), revenue sharing, along with the transformation of many categorical grant programs into “block grants” that also gave state and local governments more discretion over spending priorities, was aimed at “reversing what Nixon and his aides regarded as the explicit racial targeting of social policy by Democrats, which they assumed was a key source of social and political instability” (306). Brown argues that giving suburban areas (not just inner cities) and state governments greater control over federal funds was a key element of Nixon’s strategy to attract “alienated white Democratic constituencies who were potential Republican voters” (307).

Failure to Equalize

Despite the efforts of more progressive Democrats in Congress and pressure from public employees unions to use revenue sharing formulas to create incentives for progressive taxation at the state level, the revenue-sharing proposal that passed Congress in 1972 failed to include any meaningful equalization provisions. The House Ways and Means Committee recommended a bill in which half the revenue-sharing funds were awarded to states through a formula based on state income tax collections and the other half based on the combined tax effort of state and local governments. The “winners” under the proposal were urban states with high tax effort, which was no surprise given that the primary advocate of revenue sharing was Governor Nelson Rockefeller of New York — the state that would benefit most of all from a formula that rewarded high income tax reliance (Connery and Benjamin 1979: 410). But in the Senate, rural states and states that lacked an income tax were strenuously opposed to the House formula. Fearful that his chance at a revenue sharing bill was falling apart, Rockefeller brokered a compromise in which total state-local tax effort became the most important factor in the formula, replacing the emphasis on income tax effort. The Senate watered down this formula further by adding factors related to population and poverty rates which rewarded poor, low-tax states. Further compromises were made when the bill reached a conference committee to resolve differences between the House and Senate versions: in the final bill, states were allowed to *choose* which formula was used to calculate their share of revenue sharing funds — essentially eliminating most incentives for states to increase their tax effort as a way of attracting more federal funds (415-416).

Conclusion

Debates over federalism and intergovernmental fiscal responsibilities that took place during the New Deal and the decades following World War II have had enormous consequences for American state building. In particular, these debates failed to give rise to the establishment of a robust mechanism for equalizing fiscal capacity across states,

even as state and local governments were given new responsibilities for financing the emerging welfare state. My analysis contends that the failure to adopt tax sharing programs similar to those used in other federal political systems around the world was largely a consequence of progressive suspicions during the 1930s and 1940s that improvements to the fiscal capacity of state governments would be used to undermine the development of an activist state. Indeed, progressives had strong grounds for these suspicions: the development of a more meaningful revenue sharing policy in the late 1960s and early 1970s was disrupted by the conservative embrace of revenue sharing as a way of dismantling the existing system of federal grants to states. Throughout the longer postwar period, conservatives and business interests viewed limited state fiscal capacity as a brake on welfare-state spending. If tax sources could not be turned over to the states along with formal responsibility for grant programs, then perhaps funneling federal revenues back to the states could provide an opening wedge for reducing (rather than augmenting) federal aid to state and local budgets.

Ultimately, my analysis contends that variation in state fiscal capacity is a political outcome of fierce debates over how roles and responsibilities within the federal system should be allocated. While the amount of money states can raise from their own tax bases is of course dependent on the number and wealth of their residents and the value of their natural resources, these revenues are not the sole means by which state governments can obtain resources to support social welfare provision. Rather the fact that these revenues play such a large role in contemporary American fiscal arrangements is a function of postwar political settlements around issues of intergovernmental finance, and in particular the failure to establish a more generous system of equalization grants to states.

Chapter Three: Securing the American Dream or Protecting the Business Climate? Comparing Promises of the Sales Tax in New York and Texas

In this chapter, I analyze the factors that produced very different understandings of the social contract of taxation across the American states by focusing on the cases of New York and Texas. Both states have important features in common: they are large states that faced repeated revenue shortfalls during the 1960s as the costs of government grew, both debated (and adopted) the general sales tax in response to these shortfalls, and similar pro- and anti-sales tax coalitions formed in each state. Crucially, both Texas and New York also had powerful and vocal business communities that supported the adoption of the sales tax as an alternative to taxes on incomes or business profits. Despite these similarities, very different understandings of fiscal citizenship developed in New York and Texas during debates over adopting the sales tax. The fiscal responsibilities of different groups of taxpayers were conceptualized differently in each state, and the corresponding obligations of state government were talked about in strikingly divergent terms.

In New York, even though tax advocates were calling for the adoption of the sales tax, their arguments would have seemed familiar to progressive reformers from the early twentieth century. Sales-tax boosters repeatedly claimed that the state's overall tax structure would remain progressive, while higher revenues would guarantee access to the American dream for New Yorkers struggling to "get along and get ahead" because the sales tax would enable substantial investments in aid to schools and local governments, state hospitals, and efforts to combat water pollution. In exchange for their sales tax payments, which were part of a broader, progressive system of taxation that emphasized ability-to-pay taxation, New Yorkers were promised an activist state government whose role was to intervene in a wide range of social problems and which could draw down a larger share of the federal tax dollars New Yorkers deserved.

Meanwhile, in Texas, tax advocates focused less on the investments that the sales tax would fund and more on how it would spread tax costs among all Texans (and away from business). Pro-sales tax interests repeatedly praised the "broad-based" nature of the sales tax as a way to distinguish it from the existing revenue system of selective sales taxes on specific items such as gasoline, alcohol, and cigarettes. Yet rather than being praised for funding ambitious expansions of social welfare programs, the sales tax was justified more narrowly, as helping the state pay its bills and abolish its deficit. The role of government was rarely discussed by tax proponents in Texas, except for familiar rhetorical flourishes when state policymakers promised that tax payments would purchase autonomy from federal control. Money raised in Texas could be used to support Texas priorities, they proclaimed, equipping the state to refuse federal funds if they came with unwanted conditions or strings. Taxes, in other words, could be used to keep government away from intervening in citizens' lives or business' activities.

I argue that these differences in the models of fiscal citizenship developed in New York and Texas can be traced to variation in the organizational power of business and labor groups in each state. Class-based perspectives on the welfare state have argued that redistributive social policies are more likely where labor unions or left political parties are strong, but few analyses have applied these theories to subnational politics. My analysis demonstrates that while the organizational strength of labor and business groups did not determine whether or not the sales tax was adopted (indeed, it became law in both states), interest groups did have a powerful effect on the way the tax was justified and legitimated in each state. In New York, relatively strong labor groups pushed for public investments and drew attention to the regressive impacts of the sales tax, while in Texas the business interests that dominated state politics focused the sales tax debate on the issue of equity for business taxpayers. Interest groups flexed their political muscle through formal lobbying efforts as well as through public campaigns that articulated the guarantees the sales tax would help secure and the threats to state prosperity it could defeat.

By demonstrating the influence of political elites, particularly organized interest groups, in shaping tax politics, sales-tax debates in New York and Texas also underscore the limits of welfare state theories that imply tax structures create their own politics. The sales tax did not naturally order the relationship between taxpayers and the state in any particular way. Instead, political actors pursuing state tax reform found the sales tax to be a remarkably flexible fiscal instrument. Some promised that the sales tax would build the capacity of an interventionist state to invest in expansive social policies, while others argued it would place limits on the growth of government power. Some applauded the fact that the sales tax would enroll all citizens in bearing the tax burden, while others emphasized it would merely strengthen a tax system that continued to ask the most of the wealthiest members of society. Understanding the relationship between public finance and the welfare state requires attention to the intermediate actors, particularly organized interest groups, that make arguments about tax policies. These actors play a critical role in investing taxation with content and meaning and, ultimately, in crafting the fiscal bargains that take shape as new taxes are proposed, debated, and adopted.

Business, Labor, and the Sales Tax

Debates over new taxes in New York and Texas shared many features that scholars have identified as important drivers of fiscal mobilization processes. The sales taxes signed into law in each state were broadly similar; both exempted materials used in manufacturing, as well as food and prescription medicine, from the sales tax

(Murphy and Sitrin 1965: 206; Institute of Public Affairs 1962: 9-10).⁶¹ Both states also adopted sales taxes set at the same rate: two percent (Institute of Public Affairs 1962; Schanberg 1965).⁶² And while scholarship on fiscal mobilization highlights how political campaigns for tax increases are often framed as responses to imminent crises (such as economic downturn or military conflict), debates over sales taxes in New York and Texas were precipitated in both states by a structural need for higher revenues as state populations grew and the costs of government services mounted. Both states were among the largest states in the country in 1960; New York's 16.8 million residents made it the most populous state in the nation while Texas' relatively smaller population of 9.6 million still ranked it the sixth-most populous state. Both states were also struggling to generate enough revenue to keep up with the costs of state government. Lawmakers in New York and Texas had repeatedly pursued revenue increases throughout the past decade to meet these growing needs, and both states continued to adopt record-setting budgets at each session of the legislature.⁶³ In 1965, New York governor Nelson Rockefeller presented a budget to state lawmakers and the public containing the largest single-year appropriations increase in state history, totaling almost \$600 million higher than the previous year's budget (Ronan 1965). Likewise, Governor Price Daniel's proposed budget, sent to Texas legislators in December 1960, totaled \$376 million more than the previous biennial budget, an increase which the governor attributed to "population gains and general growth of the state" (*Austin-American Statesman* 1960).

⁶¹ There were of course differences in the final design of each state's sales tax. New York's sales tax applied to alcoholic beverages, while Texas' did not (Murphy and Sitrin 1965: 205; Institute of Public Affairs 1962: 9). Texas exempted the Bible (and other books consisting wholly of religious writing) from the sales tax, as well as the purchase of coats and jackets selling for less than \$10 (Institute of Public Affairs 1962: 10). Most notably, Texas's sales tax did not apply to items already taxed by the state, including natural gas, sulphur, motor vehicles or fuel, tobacco products, and telephone service (Institute of Public Affairs 1962: 9).

⁶² Since New York City already had a local sales tax in place before the state sales tax was adopted, the rate there climbed to five percent.

⁶³ Most recently, New York had enacted a large income tax increase in 1959 when Governor Nelson Rockefeller first took office. In Texas, where the state legislature met in biennial sessions, lawmakers had increased taxes during the 1955 and 1959 sessions and had doubled university tuition fees and increased the cost of hunting and fishing licenses and vehicle license plate fees by 50 percent in 1957 (Institute of Public Affairs 1955; 1957; 1959). Despite these recent increases, when the Texas legislature convened in January 1961 the state faced a \$70 million deficit that had accrued since the 1959-1961 biennial budget was approved two years ago (Woods 1961).

The sales tax was eventually endorsed by Democratic legislative majorities in both New York and Texas as a solution to each state's fiscal woes.⁶⁴ Of course, party affiliation had little meaning for tax politics in Texas, where practically all lawmakers — including those who opposed as well as supported the sales tax — were Democrats. However, the composition of pro- and anti-tax coalitions was also remarkably similar across New York and Texas, suggesting that differences in the way the sales tax was positioned and discussed had little to do with the type of interests that supported or opposed it. In both states, pro-sales tax coalitions were headed by education and business interests. Public schools were eager for more state revenue to help meet costs associated with a rising school-age population, increase teacher salaries, and fund new investments in outdated or deteriorating school facilities. The Texas Congress of Parents and the Texas School Boards Association threw their support behind the sales tax, and the chair of Citizens for a Sales Tax, Tom Sealy, was the former chairman of the University of Texas Board of Regents.⁶⁵ In New York, the Public Education Association and the New York State School Boards Association advocated for new taxes to support more school funding, although these groups did not always specify exactly how they preferred the money to be raised.⁶⁶ Business interests in both states saw the sales tax as an alternative to higher taxes on business (including selective sales taxes on specific industries) and personal incomes. Citizens for a Sales Tax, the Texas statewide organization formed in early 1961 to advocate for a sales tax, had a 31-member executive committee composed entirely of Texas businessmen, including the presidents of three regional chambers of commerce.⁶⁷ In New York, the Empire State Chamber of

⁶⁴ Although the sales tax was championed by Governor Nelson Rockefeller, a liberal Republican, the New York legislature was controlled by Democrats when the tax was adopted in 1965. The Texas state legislature that passed the sales tax law in 1961 was also dominated by Democrats; all 31 members of the Texas Senate and all but two of the 158 members of the Texas House were Democrats. The Legislative Reference Library of Texas has an online searchable database of Texas legislators from 1846 to present. "Texas Legislators: Past & Present." Available from: <http://www.lrl.state.tx.us/legeLeaders/members/lrlhome.cfm>. Last accessed March 12, 2015.

⁶⁵ Raymond Brooks. 1961. "Senate Panel Approves Teacher Pay Increase." *Austin American Statesman*. March 21, p. 1. Sam Wood. 1961. "Hostile Panel Quizzes Citizens for Sales Taxes." *Austin American Statesman*. March 28, p. 1. Although the Texas State Teachers Association supported new revenue for schools, they did not explicitly endorse a particular tax source for these new revenues.

⁶⁶ Letter from Edward S. Foster, President of the New York State School Boards Association, Inc., to Nelson Rockefeller. January 11, 1965. Letter from Fred N. Fishman, Vice-President and Chairman of the Committee on School Administration and Legislation, Public Education Association, to Nelson Rockefeller. February 11, 1965. Letter from Jules Kolody, Assistant to the President, United Federation of Teachers, to Nelson Rockefeller. March 31, 1965. Governor Nelson A. Rockefeller. Second Administration, 1963-1966, microfilm reel # 20. New York State Archives, Cultural Education Center, Albany, NY.

⁶⁷ "Citizens for a Sales Tax to Finance Education, Welfare, and Other State Needs." Press release. February 5, [1961]. Box 363, folder "Sales Tax H.B. 727."

Commerce was an early supporter of the sales tax and, late in the legislative session when Democrats had deadlocked over whether to support the tax, the Associated Industries of New York State, the Commerce and Industry Association, and regional chambers of commerce also chimed in to support the sales tax.⁶⁸

Meanwhile, anti-sales tax forces in both New York and Texas were led by labor unions and retail merchants. Texas AFL-CIO President Fred Schmidt testified against the sales tax during legislative debate.⁶⁹ Governor Daniel's correspondence records are also peppered with messages of support from union locals around the state applauding his anti-sales tax stance. For example, the Amalgamated Association of Street, Electric Railway and Motor Coach Employees of America (AFL-CIO) Division No. 694 from San Antonio wrote to the governor to express their "sincere thanks for your vigorous fight against the sales tax during the regular session of the 57th Legislature." They added: "Anything we can do to help in this fight we are willing and ready."⁷⁰ In New York, the state AFL-CIO vocally opposed the state sales tax, as did various local labor councils.⁷¹ The United Federation of Teachers indicated they would prefer an increase in the state income tax to the adoption of the sales tax.⁷² Retail merchants, who feared a loss of business and the administrative hassle of collecting the sales tax, testified against the sales tax in both states.⁷³ In New York City, the main anti-sales tax coalition (the Anti-5 Per Cent Sales Tax Committee) was led by Macy's president David Yunich and other large department stores.⁷⁴

⁶⁸ *The New York Times*. 1965. "Sales Tax Favored by Business Leader." *The New York Times*. December 17. R.W. Apple, Jr. 1965. "Business Groups Bid Legislators Vote Sales Tax." *The New York Times*. April 3.

⁶⁹ Wood, Sam. 1961. "Hostile Panel Quizzes Citizens for Sales Taxes." *Austin-American Statesman*. March 28, p. 1. *Austin-American Statesman*. 1961. "Schmidt Strikes At Proposed Tax." *Austin-American Statesman*. May 9, p. 5.

⁷⁰ Letter from Wilson C. Parker to Governor Price Daniel, June 19, 1961. (Box 314, "Bexar [Blue #2]" folder), RPD.

⁷¹ "Remarks by Raymond R. Corbett, President, New York State AFL-CIO, Teachers Legislative Conference, Feb. 22, 1965, Dewitt Clinton Hotel, Albany, NY." New York State AFL-CIO Records; WAG 031; box 5; folder 1; Tamiment Library/Robert F. Wagner Labor Archives, New York University. Letter from Victor T. Ferrara, Recording Secretary of the UAW Local No. 846, Buffalo, New York, to Nelson Rockefeller. March 15, 1965. Governor Nelson A. Rockefeller. Second Administration, 1963-1966, microfilm reel # 98. New York State Archives, Cultural Education Center, Albany, NY.

⁷² R.W. Apple, Jr. 1965. "Business Groups Bid Legislators Vote Sales Tax." *The New York Times*. April 3.

⁷³ Sam Wood. 1961. "Hostile Panel Quizzes Citizens for Sales Taxes." *Austin-American Statesman*. March 28, p. 1. Sam Wood. 1961. "Two Old Tax Cases Roil Again." *Austin American Statesman*. July 13, p. 1.

⁷⁴ Isador Barmash. 1965. "Merchants Here Open a Drive Against State Sales Tax Plan." *The New York Times*. March 26.

Notably, while scholarship on tax politics in the American states frequently identifies racial diversity as a major cause of variation in public willingness to support tax increases and redistributive spending, I found little reference by elites in either state to issues of race during these political episodes. My analysis of the letters citizens wrote to policymakers (and local newspapers) in Texas and New York reveals that race *was* a part of the popular discussion around the sales tax in both states, but I present that evidence in Chapter Five where I discuss these letters.

Class-based perspectives contend that support for redistributive tax and spending policies will be highest in contexts with strong labor unions or left political parties (Korpi 1983; Hicks 1999; Huber and Stephens 2001). Korpi's reference to redistribution "on the revenue side" suggests he expects working-class mobilization to support progressive taxation (1983: 195). Conversely, a balance of power favoring corporate interests is predicted to produce regressive fiscal policies that advantage business by shifting the costs of government from businesses to consumers and households. Indeed, greater union density is also associated with higher public spending at the state level, including on welfare and education, greater tax progressivity, and overall more liberal policies (Radcliff and Saiz 1998). Poor residents in states with more union members and greater union organizational presence receive larger benefits from government redistribution than poor residents in states with relatively higher corporate presence (Hicks, Friedland, and Johnson 1978). There is some evidence that taxes become more regressive in states where labor unions are relatively weaker. The presence of a right-to-work law in a state is associated with a statistically-significant movement toward greater tax regressivity, at least since the 1980s (Berch 1995; Dennis, Medoff, and Stephens 2011). Meanwhile, corporations are subject to lower effective income tax rates in states where they have larger corporate assets (Jacobs 1987), suggesting that business is better able to exercise influence over tax policy in states where they have a significant presence.

The strength of state-level labor unions differed significantly in New York and Texas during the early 1960s. In 1965, New York had one of the highest union densities in the United States; 35.5 percent of nonagricultural wage and salary employees were union members, compared to a national average of 28.9 percent (Hirsch, Macpherson, and Vroman 2001). Labor unions have also long been recognized as an influential force in New York state politics (Zeller 1937: 8, 18; Moscow 1948: 203), particularly with New York City Democrats (Peirce 1972: 47; Shefter 1987; Fuchs 1992). Labor interests were wary of Governor Nelson Rockefeller — the New York State-New York City CIO Councils had endorsed Democratic Averell Harriman when he lost his 1958 re-election bid against Rockefeller — and Rockefeller had a particularly rocky relationship with the

militant public service unions that gained strength in New York during the 1960s.⁷⁵ Even so, Rockefeller managed to cultivate support from some of the private-sector craft unions, particularly those in the electrical and construction fields that benefited from his aggressive building programs (Bellush and Bellush 1984: 247-248).

Rockefeller was conscious of pressures to improve the state's business climate, and individual business lobbyists frequently reminded him that they could easily move to another state with more favorable tax policies. During Rockefeller's long tenure as governor, the New York tax system became steadily more reliant on taxes on individuals rather than businesses; while individuals paid sixty cents of every state tax dollar in 1955, they provided seventy-four cents of each dollar by 1973 (Connery and Benjamin 1979: 193). However, Rockefeller also pushed back on numerous occasions against criticisms that his tax policies would harm business. For instance, in reply to a telegram from Walter Hoving, chairman of the Sales Tax Committee of the Fifth Avenue Association (a merchant group opposed to the sales tax), he wrote: "Our analysis leads me to believe that you may have somewhat exaggerated the implications of the sales tax for businesses in New York City. [. . .] New York businesses, particularly those of the caliber of the Fifth Avenue Association members, have clearly demonstrated their ability to compete successfully with firms in other states, in good part because of the many advantages stemming from their location in the world's most important city."⁷⁶

In sharp contrast to New York, Texas has long had one of the lowest unionization rates in the country; only 13.5 percent of Texas employees were union members in 1964 (only Georgia, North Carolina, and South Carolina had lower rates) (Hirsch, Macpherson, and Vroman 2001).⁷⁷ While the labor movement in Texas has experienced periods of radical mobilization, "labor-baiting" was "the most dependable tactic employed by conservative Democrats against progressive Democrats in virtually every contested primary for governor and senator from 1941 through 1956" (Green and Botson 2010: 126). Price Daniel was a relatively moderate Democrat, but he vigorously employed such tactics during his 1956 gubernatorial campaign against progressive Ralph Yarborough, when Daniel was elected to his first of three terms as governor. Daniel "usually spoke as though he were running against the NAACP and 'Walter Reuther of the CIO'" (Green 1979: 175) and spoke out on the campaign trail against repeal of Texas's right-to-work laws (Martin 1967: 29).

⁷⁵ "Why Labor Supports Governor Harriman and These Democratic Candidates," Pamphlet, n.d., c. 1958. New York State AFL-CIO Records; WAG 031; box 5; folder 8; Tamiment Library / Robert F. Wagner Labor Archives, New York University.

⁷⁶ Letter from Nelson Rockefeller to Walter Hoving. April 29, 1965. Central Subject and Correspondence Files, 1956-1973. Governor Nelson A. Rockefeller. Second Administration, 1963-1966, microfilm reel # 35. New York State Archives, Cultural Education Center, Albany, NY.

⁷⁷ 1964 is the earliest year estimated by Hirsch, Macpherson, and Vroman (2001).

Furthermore, the political clout of business has long been recognized as one of the distinctive features of Southwestern governance arrangements, and of Texas politics more specifically. Studies of municipal politics in the Southwest, for instance, emphasize how business organizations actively engaged in politics and formed the foundation of local governance coalitions that prioritized efficient, frugal administration and low taxes as an economic growth strategy (Bridges 1997; Shermer 2013). In Texas, powerful corporate interest groups have dominated state politics since Reconstruction, with brief disruptions by popular movements during the late nineteenth and early twentieth century and under Governor James Allred in the 1930s (Green 1979: 12-14). These interests, which Green labels “the Establishment,” took the form of “a loosely knit plutocracy comprised mostly of Anglo businessmen, oilmen, bankers, and lawyers [. . .] dedicated to a regressive tax structure, low corporate taxes, antilabor laws, political, social, and economic oppression of blacks and Mexican-Americans, alleged states’ rights, and extreme reluctance to expand state services” (1979: 17). The oil industry “came of age simultaneously with the Establishment” in Texas, and Green identifies it as the most powerful member of the business-dominated conservative coalition (18).

Business support for the sales tax in Texas was motivated by a desire to shift the cost of additional public financing onto consumers rather than industry, and in particular to safeguard the oil and gas industry from additional taxation. In February 1960, one year before the new legislature convened to tackle the state tax problem, president of Lone Star Steel Company E.B. Germany expressed to a conference of business leaders his deep concern that the need for state expenditures had continued to climb higher each legislative session. “If the traditional tax policy is followed and the legislature merely seeks out victims among the businesses and industries of Texas upon which to impose tremendously increased tax burdens the future of Texas industries, and Texas itself[,] is indeed black,” he argued. “It is imperative that there be no delay in the movement of leaders of all phases of Texas business into politics. [. . .] If business leaders fail to exercise the same leadership in politics which they have exercised in their business the game will go by default to the labor leaders.”⁷⁸

Fiscal Citizenship Bargains in New York and Texas

How did differences in the balance of power between business and labor groups influence debates over adopting the sales tax? In this section, I demonstrate how substantial differences in the ways that elites discussed these taxes in New York and Texas were linked to these sociopolitical factors. In Chapter Five, I supplement this analysis of policy elites by examining in greater detail how citizens themselves viewed

⁷⁸ Letter from E.B. Germany to Preston Weatherred, February 1, 1960. Printed in “Business and Professional Leaders Conference” report, Dallas, TX, February 11, 1960 (Box 362, “Finance Study Comm.” folder). Records of Price Daniels, Texas Office of the Governor, Archives and Information Services Division, Sam Houston Regional Library and Resource Center, Liberty, Texas.

these taxes — and the promises they conferred — by reading and analyzing the letters citizens sent to lawmakers and local newspapers. In this analysis, however, I rely on archival evidence related to sales tax debates, newspaper accounts of how legislative wrangling over sales tax proposals unfolded, and available secondary literature on politics and fiscal policy in each state to argue that sales-tax advocates in New York and Texas presented taxpayers with distinctive fiscal bargains constructed around the sales tax. These bargains had two main components: 1) they positioned the sales tax as addressing specific threats to the state’s prosperity or sovereignty, and 2) they articulated the benefits that different groups of taxpayers were entitled to receive in exchange for their tax payments. As I detail below, each type of fiscal bargain also corresponded to a distinctive set of political and rhetorical strategies that policymakers used to legitimate the sales tax in each state.

New York: Budget Cuts Threaten Prosperity

In New York, tax advocates contended that a failure to adopt the general sales tax would threaten state prosperity either by forcing budget cuts and underinvestment, by leading to higher local property taxes that would impose hardships on homeowners, or by damaging the state business climate and prompting business relocation. The only alternatives to increasing state taxes, Governor Nelson Rockefeller argued in his 1965 budget message to the state legislature, were “either intolerable local tax increases or substantial curtailment of services.” The governor refused to consider that either option was a legitimate response to the growing needs of New York residents: “Each of these alternatives is unthinkable in my view,” he wrote (Rockefeller 1965: 55). Rockefeller’s most prominent critic in New York state politics — particularly with regard to fiscal policy — was his Democratic state controller, Arthur Levitt. When Levitt urged the state legislature to make \$65 million in cuts to Rockefeller’s budget, Rockefeller responded aggressively, portraying the cuts as irresponsible and threatening to state prosperity.⁷⁹ In a statement issued by his office, Rockefeller argued that if Levitt chose to advocate cuts, he must “stand ready to assume full responsibility for curtailing and crippling vital state functions and services” (Rockefeller 1965: 1244). The statement enumerated ten separate (and vividly-described) consequences of Levitt’s proposed reductions, including jeopardizing a student loan program that made it possible for young people to attend college, depriving patients at the state mental hospital of drug therapy, and impairing forest fire control programs (1243-1244).

If budget cuts constituted one major threat to progress and prosperity in New York, another prominent menace discussed by sales-tax advocates was higher local property taxes. Increased state aid to local governments — for public education, as well as for welfare, health, housing, and general municipal assistance — accounted for

⁷⁹ Sydney H. Schanberg. 1965. “Levitt Proposes Budget Slashes.” *The New York Times*. February 26.

almost sixty percent of the proposed expenditure increases in Rockefeller's 1965 budget (Rockefeller 1965: 50-51).⁸⁰ Because the alternative to funding these investments at the state level (through the sales tax) would be funding them locally with the property tax, sales-tax advocates consistently positioned the sales tax as a way of combatting the threat of higher property taxes. In a television program produced by the governor's office about the 1965 budget, Dr. James Allen, the state commissioner of education, explained to viewers that "a price must be paid for excellence" in state schools. "If the state doesn't meet its share of these increasing costs," he warned, "then the full burden falls on the local home owner through increased property taxes. And in many communities, the local taxes have already become excessively high. Across the street from this school, for example — the taxes on that corner house were \$116 ten years ago. Last year they were \$212" (Rockefeller 1965: 1188). As the sales tax debate heated up in the state legislature, the governor also sent a telegram to chairmen of all the county boards of supervisors in New York, emphasizing that the cost of failing to support the sales tax would be higher local property taxes. He warned that local governments would on average have to increase their property tax rates by 19 percent in order to provide the same services he planned to fund through the sales tax (Rockefeller 1965: 1270-1271).

However, not all taxes were equal when it came to securing these investments and keeping local property tax rates low. Pro-sales tax interests in New York also constructed other potential sources of revenue — business taxes or individual income taxes — as major threats to state prosperity because they would damage the state's business climate and prompt businesses to relocate to states with more favorable tax regimes. In a television interview in January 1965, before he had unveiled his sales tax plan, Rockefeller explained that he believed the state income tax had "reached a point where to add very much to it would have a very detrimental effect on the economic growth of the state." He added that corporations could move across state borders to take advantage of lower taxes in other states, and argued that an increase in the income tax or business taxes would "have an adverse effect [. . .] on increased employment" (Rockefeller 1965: 1145). In another television interview after his sales tax proposal had been announced, Rockefeller explained that he supported New York's strong reliance on the personal income tax (which had been increased, with his support, during the 1959 legislative session), calling it "one of the most progressive and among the highest among all the states in the nation." However, in order to raise the needed revenue to meet his budget plans, Rockefeller noted that the state would have to increase the income tax by fifty percent, which he felt "would put us increasingly out of line with other states" and "drive many of the best employers out of the State" (Rockefeller 1965: 1202).

⁸⁰ Ronan, Thomas P. 1965. "\$598 Million Rise in State Cost Due." *The New York Times*. January 27.

Texas: Unfair Tax Burdens Threaten Business

In contrast to sales-tax advocates in New York, pro-sales tax interests in Texas rarely mentioned threats to state prosperity posed by budget cuts or property taxes. Instead, the key villain that the sales tax would help vanquish was an inequitable tax system that placed the burden for financing state government more heavily on some types of taxpayers than others, damaging the state business climate and threatening economic prosperity. Sales tax advocates criticized the package of selective sales taxes and business taxes advocated by the governor as inequitable and fundamentally unfair. The *Austin-American Statesman* reported that critics called Daniel's plan "peacemeal [sic]" and Citizens for a Sales Tax chairman Tom Sealy described it as a "hodgepodge, hit or miss practice of singling out various businesses for taxation" that created "an uncertain and unfavorable business climate and leaves to another Legislature the long-range solution of the state financial problem."⁸¹ In an April 1961 editorial that repeated many of the claims made by Citizens for a Sales Tax, the *Dallas Morning News* asserted that "Texas' greatest need is a broad-based tax. [. . .] The present hodge-podge of special sales taxes, franchise taxes, and levies on natural resources raised the needed money only for a year or so."⁸²

In a personal letter to the governor protesting his efforts to prevent the State Finance Advisory Commission from endorsing a sales tax, president of Lone Star Steel E.B. Germany included a copy of his answers to a recent questionnaire circulated by the East Texas Chamber of Commerce.⁸³ In response to the question "what do you consider the greatest deterrent to a continuation of our industrial development in Texas?" Germany identified the "threat of selective taxes placing too much of the burden on present and prospective industry and the threat of repeal or modification of our labor law [. . .]." And when asked to provide his recommendations for insuring a good state business climate, Germany urged the state to "stabilize the cost of state government and more fairly distribute the burden of taxation among all the citizens. Abolish the threat of selective taxes. [. . .] Establish on a long range basis a broad base taxing program."⁸⁴ Likewise, in submitting its recommendations to the State Finance Advisory Commission, the Texas Mid-Continent Oil and Gas Association also emphasized the

⁸¹ Wood, Sam. 1961. "Daniel Drops Payroll Levy" *Austin American Statesman*. February 21, p. 11. *Austin American Statesman*. 1961. "Daniel's Tax Plan Scored." *Austin American Statesman*. February 22, p. 1.

⁸² Newspaper clipping. "Case for Sales Tax Is Stronger," by Walter B. Moore. *Dallas Morning News*. April 4, 1961. Box 363, folder, "Sales Taxes 1961."

⁸³ Germany was also president of the East Texas Chamber of Commerce, chairman of the Texas Industrial Commission, and a member of the State Finance Advisory Commission.

⁸⁴ Letter from E.B. Germany to Governor Price Daniel, May 26, 1960. (Box 362, "Finance Study Comm." folder), RPD.

danger of selective taxation. The association claimed that the oil and gas industry already provided “more than 55 percent of the tax revenue of this state” and therefore should not be “saddled” with additional taxes. “We believe this is more than our fair share of the Texas tax burden,” the Association’s press release stated.⁸⁵

New York: Strengthening Social Investments

Though the sales tax would impose its highest costs on poor New Yorkers, sales-tax advocates contended that its adoption would also strengthen the basic progressive bargain between these taxpayers and the state by enabling robust public investments in social services. The ways that sales-tax advocates in New York talked about the sales tax came in direct response to criticism from labor groups that the tax would disproportionately impact low-income New Yorkers. President of the New York State AFL-CIO, Raymond Corbett, told educators gathered at the Teachers Legislative Conference in Albany that the proposed sales tax was a part of program of “legislated poverty” in New York. “Nobody can have any doubt about our position on this issue,” Corbett asserted. “We have already denounced this tax proposal as a blow to the low-income groups of the state and warned the Governor and the Legislature that a regressive tax like this one must have a staggering impact upon those people in this state who have the least in their family budgets to absorb this added burden and who are least able to avoid the impact of these taxes.”⁸⁶ According to its boosters in New York, the sales tax was fair because even though it would have a disproportionate impact on low-income taxpayers, it underwrote progressive investment in public services and could be implemented without upending the fundamentally progressive structure of the state’s overall revenue system.

Shortly after the sales tax was signed into law in New York, Governor Rockefeller received a letter from Massachusetts governor John Volpe, a fellow liberal Republican. Volpe was in the midst of his own fight over adopting a state sales tax to fund education and provide state aid to local governments, and he hoped Rockefeller could share some insights from his recent sales-tax victory in New York. In his reply, Rockefeller highlighted how pro-sales tax advocates had engaged the argument that the sales tax was regressive: “One of the strongest arguments that we used was the one that our proposed sales tax was different from the usual sales tax in that it was a broad-based sales tax and included a wide variety of services and related items that were not normally part of a sales tax base. We emphasized that with food, rent and other

⁸⁵ “Information Copy of Press Release for Association Members,” August 27, 1960. Texas Mid-Continent Oil and Gas Association. Box 362, folder “Finance Study Comm.”

⁸⁶ “Remarks by Raymond R. Corbett, President, New York State AFL-CIO, Teachers Legislative Conference, Feb. 22, 1965, Dewitt Clinton Hotel, Albany, NY.” New York State AFL-CIO Records; WAG 031; box 5; folder 1; Tamiment Library / Robert F. Wagner Labor Archives, New York University.

important items exempt, the sales tax had relatively little regressivity in it and, when combined with our progressive personal income tax, gave us in the final analysis a sharply progressive combined tax structure.”⁸⁷ Indeed, such arguments were common in letters Rockefeller wrote to union leaders during the sales tax debate as he defended the proposal against criticisms that the tax would harm poor New Yorkers.⁸⁸ For instance, in a letter to Arnold Johnson, Secretary-Treasurer of the Geneva Federation of Labor, Rockefeller argued that “sales taxes need not be inequitable as is sometimes thought.”⁸⁹ He noted that New York’s relatively high, progressive income tax would keep the overall state tax system progressive when the sales tax was added and asserted that exemptions for food, drugs, and rent would mean that “a substantial portion of the purchases of low-income people would not be taxed.”

Interestingly, the claim that the sales tax existed within an overall progressive tax structure was not technically accurate. Even prior to the adoption of the sales tax, poor New Yorkers already paid a higher share of their income in state and local taxes than did wealthy New Yorkers. Using data from the early 1960s, Phares (1973) estimates that New Yorkers making less than \$1,999 a year paid 145 percent more in state and local taxes — when taxes are measured as a share of income — than did New Yorkers making more than \$15,000 a year (152). Indeed, state tax payments as a share of income declined steadily for New Yorkers as incomes increased (although the richest group of New Yorkers did pay a higher effective rate of taxation than those in the income group immediately below them).⁹⁰

The second way that sales-tax advocates in New York courted labor interests was to emphasize the relationship between sales tax revenue and social investments. “Much of organized Labor has been traditionally opposed to a sales tax here,” Massachusetts governor Volpe wrote, asking Rockefeller for his advice.⁹¹ Rockefeller was clear that he

⁸⁷ Letter from Nelson Rockefeller to John Volpe. May 27, 1965. Central Subject and Correspondence Files, 1956-1973. Governor Nelson A. Rockefeller. Second Administration, 1963-1966, microfilm reel # 35. New York State Archives, Cultural Education Center, Albany, NY.

⁸⁸ Letter from Nelson Rockefeller to Louis Powsner. March 1, 1965. Central Subject and Correspondence Files, 1956-1973. Governor Nelson A. Rockefeller. Second Administration, 1963-1966, microfilm reel # 35. New York State Archives, Cultural Education Center, Albany, NY. Letter from Nelson Rockefeller to Jay Rubin and James L. O’Hara. March 1, 1965. Governor Nelson A. Rockefeller. Second Administration, 1963-1966, microfilm reel # 98. New York State Archives, Cultural Education Center, Albany, NY.

⁸⁹ Letter from Nelson Rockefeller to Arnold M. Johnson. February 3, 1965. Central Subject and Correspondence Files, 1956-1973. Governor Nelson A. Rockefeller. Second Administration, 1963-1966, microfilm reel # 35. New York State Archives, Cultural Education Center, Albany, NY.

⁹⁰ Phares (1973) estimates effective rates for nine income classes, with the top class representing incomes over \$15,000.

⁹¹ Letter from John A. Volpe to Nelson Rockefeller. April 29, 1965. 2A Reel 35 Letters 6

attributed his success in neutralizing labor opposition in New York to linking the sales tax with public investments. "Our ability to pass the sales tax legislation in New York traced primarily to our tying together urgent State needs, especially in the field of State aid or local assistance, and a substantial increase in State revenues," he explained.⁹² He also noted that "[o]rganized labor took no militant position either for or against the sales tax. Within the broad field of labor there were resolutions both for and against." Rockefeller explained that some unions supported the sales tax because it would fund a capital construction campaign, while others "either supported the tax or declined to oppose it because they believed that its contribution to the general welfare, including particularly education, would be to the advantage of all concerned."

This emphasis on the social contributions financed by the sales tax was, as Rockefeller noted, deliberately cultivated by his administration. In a response to a February 1965 telegram from the Geneva Federation of Labor criticizing the regressive structure of the sales tax, Rockefeller enumerated seven separate policy areas that would benefit from new revenues, including public education, assistance for poor children, patients at state mental hospitals, and efforts to combat water pollution.⁹³ Louis Powsner, president of the Joint Council of Kings County Boards of Trade, also wrote the governor to decry a sales tax that could reach 5 percent in New York City. "Do you realize, sir, that 85% of our City's populace earns less than \$10,000 annually [. . .]?"⁹⁴ In his reply, Rockefeller countered by again emphasizing the increased public services that the sales tax would fund: "The tax proposals I have made would help New York City residents and businesses in many ways. The State budget contains the largest increase for a single year in history in State aid to the city, providing additional funds for elementary and secondary education, the City University, welfare and probation services, highways, and per capita aid."⁹⁵

The Rockefeller administration went to great lengths to link sales tax revenue to specific improvements that New Yorkers would experience as a result of their higher tax

⁹² Letter from Nelson Rockefeller to John Volpe. May 27, 1965. Central Subject and Correspondence Files, 1956-1973. Governor Nelson A. Rockefeller. Second Administration, 1963-1966, microfilm reel # 35. New York State Archives, Cultural Education Center, Albany, NY.

⁹³ Letter from Nelson Rockefeller to Jay Rubin and James L. O'Hara. March 1, 1965. Governor Nelson A. Rockefeller. Second Administration, 1963-1966, microfilm reel # 98. New York State Archives, Cultural Education Center, Albany, NY.

⁹⁴ Letter from Louis W. Powsner to Nelson Rockefeller. January 30, 1965. Central Subject and Correspondence Files, 1956-1973. Governor Nelson A. Rockefeller. Second Administration, 1963-1966, microfilm reel # 35. New York State Archives, Cultural Education Center, Albany, NY.

⁹⁵ Letter from Nelson Rockefeller to Louis Powsner. March 1, 1965. Central Subject and Correspondence Files, 1956-1973. Governor Nelson A. Rockefeller. Second Administration, 1963-1966, microfilm reel # 35. New York State Archives, Cultural Education Center, Albany, NY.

payments. In January 1965, the administration produced an episode of the program “Executive Chamber” — a half-hour television show dedicated to explaining New York government programs, financed with the governor’s personal funds — focused on the state budget and the sales tax (Connery and Benjamin 1979: 143).⁹⁶ Titled “The View from the Governor’s Chair,” the episode opens by asking viewers to picture themselves sitting behind Governor Rockefeller’s desk in Albany, paging through a thick copy of the executive budget (Rockefeller 1965: 1184). The episode then presents state officials explaining three different funding requests in the 1965 budget: increases in state aid to local school districts, a salary increase for psychiatric aides at the state mental hospital, and funds to pay for dog food for bloodhounds used by the state police. “Which of these items would you have not put in the budget?” Rockefeller asks his television audience. “[I]ncreased state aid for schools? — a rate of \$215 a year for psychiatric aides who are underpaid? — dog food for those marvellous animals at the Oneida Barracks? The decisions aren’t easy” (1190).

In the episode, Rockefeller and his advisors then engage in a scripted debate over what type of taxes to use to fund the increased costs in the budget. “We could tax soft drinks, but that would be mostly a tax on children and people who don’t drink liquor,” muses Richard Dunham, the administrative deputy director in the Division of the Budget. Norman Hurd, Rockefeller’s budget director, steps in with another suggestion: “Governor, a statewide sales tax would yield significant revenues.” Hurd argues that the sales tax is already levied in neighboring states and would be “fair to all” when combined with the existing progressive income tax. Other members of the budget division dutifully recite their lines explaining that would take a major increase in the income tax to match the funds raised by the sales tax and that sales tax payments will even be deductible from New Yorkers’ federal income tax returns. The episode closes with Rockefeller once again animating the printed lines of the executive budget: “In the view from the Governor’s chair, the dollars and cents figures on these pages are human figures being helped to get along and get ahead in accord with the American dream” (1192).

For Rockefeller, states must be willing to fully utilize their taxing power in order to preserve the vital institutions of strong state government and a federalist system. Rockefeller emphasized this point when he delivered the 1962 Godkin Lectures at Harvard University on the topic of federalism, stating: “In concrete terms: if a state government lacks the political courage to meet the needs of its people by using its own taxing power — if it prefers to escape by letting the national government do the taxing and then return the money to the state — the leadership of this state puts itself in an exceedingly poor position to weep over the growth of federal power. The preservation

⁹⁶ Rockefeller deducted \$274,704 in expenses related to *Executive Chamber* from his federal income taxes as a gift to the state of New York (Smith 2014).

of states' rights — in short — depends upon the exercise of states' responsibilities" ([1962] 1974: 24). In his 1965 budget message to the legislature, in which he proposed his record \$330 million tax increase (including the sales tax), Rockefeller asserted that "[w]e will not avoid our responsibilities and leave a vacuum which would then be filled by the Federal Government" (Rockefeller 1965: 55).⁹⁷

However, Rockefeller also saw higher state taxes as a tool for securing more investment from the federal government. This investment remained on New York's terms, largely because the state already had more generous and ambitious programs in health, welfare, capital construction, and urban renewal than any other state in the country. And, because New Yorkers paid a disproportionate share of overall federal tax revenues, Rockefeller felt he was justified in demanding that a major share of these dollars return to New York to fund its priorities (Connery and Benjamin 1979: 195-197). In 1968, for instance, New Yorkers paid an estimated \$28 billion in tax revenues to the federal government and received \$1.4 billion in state and local aid (212). Between 1942 and the early 1970s, as shown in Figure 2, New York consistently received below-average levels of federal aid when measured as a share of state and local revenue (Advisory Commission on Intergovernmental Relations 1974: 33-34).

Rockefeller was not above a bit of political theatre when it came to making his point that federal grant-in-aid programs needed to be reformed and greatly expanded to keep up with the growing demands placed on state government. In 1966, Title XIX of the Social Security Act authorized a fifty-fifty matching program for states to expand medical assistance to the poor, provided that they improve their existing programs. New York responded by raising its income eligibility threshold — already the most generous in the nation — from \$5,200 to \$6,200 for a family of four, effectively claiming all \$217 million of federal assistance that had been set aside as the first-year budget for the nation's entire Medicaid program. In response, Congress set a ceiling on the amount of federal funds that could go to any one state and New York had to amend its legislation to remove 1.2 million people from the Medicaid eligibility list (Connery and Benjamin 1979: 214-215).

Texas: Keeping Government at Bay

In Texas, on the other hand, the pro-sales tax coalition focused on how the sales tax would ensure all citizens were forced to pay into the tax system, while simultaneously keeping government at bay. The notion that tax dollars translated into line items in the state budget, which in turn transformed into the building blocks of the American dream, was not an organizing concept for pro-sales tax advocates in Texas. Instead, business groups emphasized that the sales tax would bring balance to the state tax system by treating all taxpayers equally and not singling out specific industries or

⁹⁷ R.W. Apple, Jr. 1965. "Seeks Bond Issue." *The New York Times*. January 30.

products for excessive taxes. Citizens for a Sales Tax argued a sales tax was needed to “finance education, welfare, and other state needs,” including a \$800 salary increase for public school teachers recommended by the recent Hale-Aiken legislative committee formed to study the state’s education system, increased funding for higher education, and a medical aid program for Texans receiving Old Age Assistance.⁹⁸ However, pro-sales tax advocates tended to focus more on how the sales tax would bring balance and fairness to the tax system rather than on the public investments that new revenues would enable. Supporters of the sales tax repeatedly referred to it as “equitable” or “broad-based”⁹⁹ and argued that it would be “fair to everyone.” Business interests embraced this language as a way to press their case that consumers must bear a larger share of the tax burden. In its letter to the State Finance Advisory Commission, the Texas Mid-Continent Oil and Gas Association offered a seven-point “yardstick” for measuring tax proposals. The first point in its list stated: “It is the responsibility of citizens of this state — its individual citizens as well as businesses operating in this state — to pay the cost of government in this state.” This criterion was supplemented by the fourth item in the “yardstick” list, which stated, “All citizens should share in the responsibility for payment of taxes.”¹⁰⁰

Unlike sales-tax advocates in New York, who sought to mitigate the regressive structure of the sales tax by defending the investments it would fund or pointing to exemptions aimed at low-income households, pro-sales tax groups in Texas simply asserted that the sales tax was inherently fair because it would cost more for those who made more expensive purchases. The Texas Mid-Continent Oil and Gas Association explicitly argued in favor of “broad-base taxes in which the ability-to-pay principle predominates,” listing not only the income tax and property tax as examples of such taxes but also the general sales tax. And the *Dallas News* editorialized in May 1961 in favor of the sales tax, saying it was “a broad-based tax that will fall upon practically every citizen of the state. It will tax according to every person's ability to spend for his own needs and comforts with an upward graduation on luxuries. [. . .] It will be a growth tax, in that revenues will increase with the economic growth of the state and the ability of people to increase their expenditures.”¹⁰¹

⁹⁸ “Citizens for a Sales Tax to Finance Education, Welfare, and Other State Needs.” Press release. February 5, [1961]. Box 363, folder “Sales Tax H.B. 727.”

⁹⁹ *Austin American Statesman*. 1961. “Daniel’s Tax Plan Scored.” *Austin American Statesman*. February 22, p. 1. *Austin American Statesman*. 1961. “Sales Tax Chairman Is Named.” *Austin American Statesman*. March 5, p. B12.

¹⁰⁰ “Information Copy of Press Release for Association Members,” August 27, 1960. Texas Mid-Continent Oil and Gas Association. Box 362, folder “Finance Study Comm.”

¹⁰¹ Newspaper clipping. “Daniel’s Threat of Veto.” *Dallas News*. May 2, 1961. Box 337, folder, “Taxes - Folder #2.”

The terms of the fiscal bargain articulated in Texas — that fiscal citizenship required all citizens to participate in paying for the cost of government and that different rates for different types of taxpayers were inherently unequal — dominated the debate over new revenues to such an extent that it was adopted by both pro- and anti-sales tax advocates. In particular, the claim that a tax package was “broad-based” became so ubiquitous that it seemed to lose meaning. According to the *Austin American Statesman’s* political correspondent Sam Wood, as members of the House Revenue and Taxation Committee debated revenue options they engaged in “persistent questioning and [. . .] argument over the definition of ‘broad based taxes.’” Some members of the committee contended that a tax that expanded the field of selective sales taxes beyond the most lucrative items of gasoline, cigarettes, and liquor to include some additional items would qualify as “broad-based,” while others even embraced a definition that would simply mean higher rates of these existing selective sales taxes.¹⁰²

Governor Daniel also used a vocabulary of equity, fairness, and balance to attack the general sales tax, even as his opponents deployed these frames to criticize selective sales and business taxes. In an appearance before the Senate State Affairs Committee, the bulk of Daniel’s objections to the sales tax focused on concerns of equity — and, in particular, how the many exemptions contained in the bill systematically discriminated against ordinary Texans.¹⁰³ Daniel argued that the overall impact of the revenue package was inequitable because generous exemptions for commercial interests meant (according to his estimates) that 90 percent of the burden from new taxes was placed on consumers and only 10 percent on business.¹⁰⁴ How could this be a fair distribution of the tax burden, Daniel asked, “when the gross annual income of business and industry is \$43 billion as compared with \$18 billion in gross income for individuals”? Daniel also criticized the sales tax bill for creating special exemptions for commercial taxpayers while individual taxpayers would pay sales taxes on the same goods. Utility bills, for instance, were subject to the sales tax for domestic consumers but not for commercial or industrial enterprises. “[I]t seems evident,” Daniel fumed to the senators, “that many of the special interests which have so vigorously advocated this type of broad-based tax

¹⁰² Wood, Sam. 1961. “Capitol” column. *Austin American Statesman*. March 29, p. 1.

¹⁰³ “Statement of Governor Price Daniel, Senate State Affairs Committee, In Opposition to H.B. 727, ‘The General Retail Sales Tax.’” n.d. Box 337, folder, “Taxes #1.” Daniel also rattled off a laundry list of other criticisms of the sales tax bill, including its disproportionate impact on low-income households, costs to both merchants and the state connected to collecting the tax, the high possibility of evasion, its inability to solve the revenue problem, and its negative impact on the state’s ability to attract new industry. Daniel’s argument that the sales tax wouldn’t solve Texas’ tax problem pointed out that “in every State which has adopted [the sales tax], there has been a great expansion in spending, increase in selective sales taxes, increase in State income taxes, increases in the general sales tax rates, or increases in the public debt.”

¹⁰⁴ “Statement of Governor Price Daniel, Senate State Affairs Committee, In Opposition to H.B. 727, ‘The General Retail Sales Tax.’” n.d. Box 337, folder, “Taxes #1.”

are actually for it only so long as it is not broad enough to cover them.” Ultimately, whether the sales tax applied to any given purchase depended not just on the item purchased but the type of organization, business, or taxpayer making the purchase. The mass of exemptions offered in the bill would encourage evasion, Daniel warned, and “hold up and delay customers in the check-out lines while the clerks and checkers study the law and obtain exemption certificates.”

Daniel took special aim at a provision in the sales tax bill that exempted items purchased solely for use outside the state. “Under this provision a movie actress could purchase a mink stole from Neiman-Marcus under the representation that she was going to wear it in Texas only during the interim pending her return and use of the garment in Hollywood; and, therefore, she would pay no sales tax.” According to the *Austin American Statesman’s* coverage of the hearing, Senator Abraham Kazen of Laredo “snapped to fast” at the government’s statement, responding, “You mean that anyone coming over from Mexico could buy anything he wanted in Texas and not pay the sales tax because he was going to take it across the line with him?”¹⁰⁵

Finally, the governor also railed against the sales tax because it treated different categories of goods differently, namely by taxing soft drinks, tea, coffee, and milk when they were served with meals in restaurants, while exempting beer and other alcoholic beverages. The House had excluded alcohol (along with cigarettes and many other specific categories of goods) from the sales tax because it was already subject to existing excise taxes, but Daniel seized on the exemption as a way to dramatize the inequities of the sales tax. The overall effect of the House bill was “a vast patchwork of selective exemptions, conflicts, uncertainties and equities.” If the legislature sought a broad-based tax, Daniel argued, it should come up with a “broad enough base to include many of the special advocates of broad-based taxation who are selectively exempt from the taxes contained in H.B. 727.” When a legislative conference committee deadlocked on efforts to achieve a compromise tax bill and the regular session came to a close, Daniel announced he would call a special session of the legislature to resolve the revenue crisis. He also scheduled a special address to the public, carried on television and radio, in which he roundly criticized the business lobby for pushing a sales-tax agenda on legislators.¹⁰⁶ During his address, Daniel used a set of props to illustrate which items would be taxed under the sales tax proposal and which items would be exempted. In the first group, he displayed a Bible and a baseball, while the second display featured alcoholic beverages.¹⁰⁷

¹⁰⁵ Wood, Sam. 1961. “Capitol” column. *Austin American Statesman*. May 10, p. 1.

¹⁰⁶ Conway, Pat. 1961. “Daniel Again Slaps Lobby for Session’s Tax Failure.” *Austin American Statesman*. June 1, p. 1.

¹⁰⁷ *Austin American Statesman*. 1961. “Daniel Tax Report Draws Brisk Fire.” *Austin American Statesman*. June 2, p. 1.

E.B. Germany immediately seized on the governor's claim that business carried only ten percent of the burden of proposed new taxes, telling the Senate State Affairs Committee that he had "called on trusted members of my staff to evaluate the facts. I might say these men are the same men upon whose judgments and forecasts we have spent millions, and they have proven themselves to me."¹⁰⁸ These estimates found, Germany explained, that business and industry would pay 35.7 per cent of the total tax contained in H.B. 727. "We have never, as a company or as individuals, complained of the cost of our state taxes," he asserted. Given that business would pay over a third of the cost of the new sales tax bill, he continued, "[i]t is difficult to see how it cannot be said that this bill does not impose a fair share of the tax burden on business and industry."

Like Rockefeller, Daniel argued that states had to do more to protect federalism by living up to their fiscal responsibilities. In his 1957 inaugural address when he became governor of Texas, he proclaimed: "The surest way to protect the rights of the State of Texas is for us to have a dynamic and constructive exercise of the responsibilities which accompany these rights. If we have more exercise of State responsibilities, we will have less worry about the loss of State rights" (quoted in Martin 1967: 79). Daniel's address referred specifically to school finance as an example of these state responsibilities; the new governor argued that teacher salaries had to increase and forcefully made the case that these investments must be made with Texas revenues. "This is one field in which the advocates of centralized Federal power are anxious to land. First, they will offer us general Federal aid without controls, but if ever we become dependent on the powers in Washington for money to operate our schools, they will end up telling us what to teach, how to teach it, and who shall go to school together" (85).¹⁰⁹

In contrast to New York, Texas actually received an above-average level of aid from the federal government. In 1957, Texas received federal aid equal to 12.8 percent of state and local revenues, compared a national average of 10.5 percent (Advisory Commission on Intergovernmental Relations 1974: 33-34). While Texas lawmakers were happy to accept these funds as long as they did not come with substantial strings, they also vigorously resisted federal attempts to redistribute revenues generated in Texas to support national aims. The most visible instance of Texas's fiscal rebellion during the

¹⁰⁸ "Statement by Mr. E.B. Germany to the State Affairs Committee of the Senate of the State of Texas." May 8, 1961. Box 363, folder "H.B. 727 1961."

¹⁰⁹ Indeed, during the 1957 session of the state legislature, lawmakers approved a \$399 salary increase for public school teachers. No new taxes were adopted during the session, although spending increased by \$500 million over the previous state budget. Increased revenues were provided from a doubling of college and university tuition fees, increases in hunting and fishing licenses, and an increase in fees for vehicle license plates. Texas also benefited from an increase in federal grants-in-aid and from increased demand for oil production related to the Suez crisis (Institute of Public Affairs 1957: 10-11).

postwar period was the controversial “tidelands” dispute, which began in the late 1930s when the federal government tried to assert ownership over offshore submerged oil fields — and the revenues generated when coastal states issued drilling leases to oil companies.¹¹⁰ The tidelands dispute affected many states, but Texas had the most potential revenue at stake. The submerged lands at issue off the coast of Texas amounted to \$38 million in provable resource value but a staggering \$23.5 billion in estimated or potential resource value (Fitzgerald 2001: 29). In 1939, the Texas legislature had passed a law dedicating revenues from offshore mineral leases to the state’s public school fund, and defenders of Texas’s right to continue issuing these leases were fond of rhetoric about defending the “millions of acres of land won at San Jacinto” on behalf of public school children who needed this land to fund their education (Pack 1979: 20, 164)

Indeed, before Price Daniel was elected governor of Texas he served as the state’s attorney general, and he took a leading role in the legal fight to defend Texas’ oil fields (and revenues) from federal ownership. Daniel turned over all his other duties as state attorney general to his deputy and devoted himself full-time to coordinating the legal response of all the state governments in advance of a re-hearing of the case by the Supreme Court (Murph 1975: 175). As the dispute continued, Daniel became the first state official in Texas to break with the national Democratic Party over Truman’s refusal to support “quitclaim” legislation restoring state rights to the tidelands through federal legislation. Daniel also conditioned his support for Adlai Stevenson in 1952 on his commitment to sign such a bill, and when Stevenson refused, Daniel endorsed Eisenhower (Murph 1975: 218). Meanwhile, Daniel mounted his own campaign for U.S. Senate based around the issue of getting a tidelands bill through Congress. Both Daniel’s Senate bid and his crusade for a quitclaim bill (signed by President Eisenhower), were eventually successful, and Daniel served only four years of his first Senate term after concluding he had accomplished his aims and would rather return to Texas to run for governor.

While Rockefeller saw state taxes as a way to attract and secure federal investment, Texas’s Daniel viewed state taxes as a way to fund Texas prerogatives and to preserve the state’s option of avoiding potential conditions that could be attached to

¹¹⁰ In 1937, about a decade after California and Texas issued the first offshore oil leases for petroleum exploration and development, the Roosevelt administration initiated federal efforts to claim ownership over offshore submerged lands. Until this point, land out to the three-mile mark from shore had been understood as owned by the individual states bordering those waters. Congressional bills to establish such federal ownership failed throughout the late 1930s and into the 1940s, and in 1945 the U.S. Department of Justice changed its approach by filing suit first against Pacific Western Oil Company, which was extracting oil from a submerged oil field near Santa Barbara, and then against the state of California, challenging its title to these offshore lands. The Supreme Court upheld the federal government’s claim to these submerged lands in a 1947 decision, and in the late 1940s the Department of Justice also sued the state of Texas and Louisiana, which had continued to assert their claims over the increasingly-valuable submerged oil fields in the Gulf (Pack 1979; Fitzgerald 2001).

federal grants-in-aid. For instance, Daniel was also serving as the state attorney general in Texas when the NAACP began a legal campaign against state governments for failing to provide “separate but equal” education for black students, first at the graduate school level and then with suits in secondary schools that launched a more direct attack against segregation (Tushnet 1987). As a segregationist attorney general charged with the defending the state against these lawsuits, Daniel repeatedly warned fellow Texans that the state was vulnerable to legal challenges because it did not provide equal facilities or opportunities for black students. If the state hoped to maintain its segregated public schools, Daniel argued, they needed to invest in providing equal accommodations (Fielder 1997: 20-35, 73). At the same time, Daniel vigorously opposed efforts to link federal funding for school construction to desegregation requirements; in 1956 while campaigning for governor (and a sitting U.S. Senator), he promised Texans he would return to Washington if necessary to fight a school aid bill containing the Powell amendment denying funds to states with segregated schools (102).

Conclusion

Although New York and Texas share many characteristics that scholarship associates with contrasting tax politics, such as the structure of proposed tax policies, the precipitating need for new revenue, and the composition of pro- and anti-tax coalitions, sales taxes came to symbolize very different types of fiscal promises during the 1960s. My analysis demonstrates not only that different languages of fiscal mobilizations prevailed during sales tax debates in New York and Texas, but also that these divergent vocabularies were linked to variation in the strength of business and labor groups and existing tax reliances.

In New York, strong labor unions could not prevent the adoption of the sales tax, but these interests did produce a rhetorical focus on how the sales tax would enable ambitious investments in core state government functions as well as programs that would underwrite the American dream for all New Yorkers. Pro-tax advocates warned of threats to state prosperity in the form of budget cuts, as well as high income and business taxes. In contrast, pro-tax voices in Texas, which were dominated by business interests, positioned an “unbalanced” tax system as the real threat to Texas prosperity and focused on how passage of the sales tax would secure a more broad-based distribution of the costs of government.

The passage of sales taxes in each state during the 1960s ultimately implied very different understandings of the relationship with the federal government that could be claimed on the basis of these new state tax dollars. For the liberal Republicans like Rockefeller in New York, additional state revenue enabled even more ambitious investments in a state-level welfare state that would also allow the state to pull down more dollars of federal aid in matching funds and program expansions. But in Texas, new state revenues were seen as allowing Texans to build higher fiscal walls between

their priorities and the goals of an overreaching federal government. If and when federal funds came with conditions that were unacceptable to Texas lawmakers, sales tax revenues would allow the state to surrender these grants without incurring a budget crisis.

Chapter Four: Race and Redistribution in South Carolina and Georgia

In the late 1940s and early 1950s, states across the South raised existing taxes or adopted new taxes in order to make major investments in public education such as increasing teacher salaries, constructing new school buildings, and providing more uniform funding levels across school districts. These investments, while “arguably the most important modernizing projects of the era” in the South, “were also bulwarks against desegregation” in that they sought to demonstrate states’ commitment to erecting truly “separate but equal” school facilities for black students and, after the *Brown* decision, to push black leaders to accept voluntary segregation in exchange for improved school facilities (Bartley 1995: 167-169). While the role of school funding reforms in state efforts to perpetuate segregation is well documented in historiography on the postwar South (Bartley 1995: 147-186; O’Brien 1999; Bolton 2005; Dobrasko 2005; Bonastia 2012), little attention has been paid to the question of how white taxpayers were enlisted in support of the tax increases that funded these efforts to funnel public dollars toward racial minorities. This support was by no means a foregone conclusion: opponents argued that new taxes to fund school programs were risky and expensive gambles that could be voided by a Supreme Court decision — and required white taxpayers to contribute disproportionately to expenditures on black schools. Understanding how white support for increased taxes was forged during this period is critical, given that these cases challenge the conclusions of existing literature on race and redistribution that racial diversity dampens public spending, particularly when poverty is concentrated in minority groups.

In this article, I analyze how white taxpayer support was enlisted in the postwar South by focusing on two cases where major new taxes were adopted to fund these “equalization” reforms: South Carolina and Georgia. Both states adopted general sales taxes in 1951 in order to fund investments in public education and to demonstrate a commitment to improving black schools. Four years into South Carolina’s building program, the governor boasted that the sales tax had supported over \$124 million in state-issued bonds to finance educational improvements, with over two-thirds of the revenue going to black schools (Byrnes 1958: 408). In Georgia, per pupil expenditure jumped by 70 percent between 1947 and 1953, and the share of state funds received by black students also increased as a result of the sales tax’s adoption.¹¹¹

I demonstrate that the fiscal mobilization of white southern taxpayers — or the political exercise through which states enlisted citizen support for revenue generation and participation in a new regime of taxation — occurred on very specific terms and

¹¹¹ Unlike in South Carolina, though black schools in Georgia benefited from increases in state educational expenditures, white students continued to receive a disproportionate share of the new state funds (O’Brien 1999: 85-86).

was accomplished through the use of a specific set of arguments deployed by state leaders and pro-tax advocates. Segregationist reformers constructed the sales tax as a guarantor of the “Southern way of life,” promising that whites’ preferred social order could be purchased through daily consumption tax payments. Advocates also emphasized the “fairness” of the sales tax as the funding mechanism for the school program, pointing out that it would force black taxpayers to pay their share of these new costs. Finally, in order to convince white citizens that their tax dollars would not be wasted if the federal courts struck down segregation, activists wrote provisions into school funding legislation to end public support for education if black students were admitted to white schools. These provisions laid the groundwork for efforts following the *Brown* decision to redirect public dollars into individual grants or tax exemptions to fund private, segregated schools.

I argue that these cases expand our theories of the relationship between race, federalism, and the welfare state by demonstrating how racial conflict does not simply constrain redistribution but rather shapes the form and meaning of redistribution. The fact that black students would benefit from new tax revenue shaped the type of taxes proposed by advocates, the logics and justifications of fiscal mobilization, and — most significantly — the terms on which these investments would be sustained or revoked. In other words, the manner in which the costs and benefits of public investment come to be conceptualized through political and social debates has profound consequences not just for when and how investments are made, but the conditions under which these investments will be retracted. Indeed, in South Carolina and Georgia, once the promise of preserving segregation through public resources had been denied by the Supreme Court in the *Brown v. Board* decision, the same conditions of under-investment in black schools that had served as the rationale for fiscal mobilization became a justification for disinvestment by white taxpayers.

By focusing on a pivotal period in the history of state tax systems, my research extends existing scholarship on southern tax exceptionalism that emphasizes how racial politics have structured key moments in the development of southern states’ tax systems, from slaveholder resistance to the development of modern tax assessment practices prior to the Civil War (Einhorn 2006) to the withdrawal of fiscal support for public education through white flight and suburbanization during the postwar period (Kruse 2005).

Race, Redistribution, and Fiscal Mobilization

Literature on taxation and the welfare state has rarely explored cases where racial diversity has spurred — rather than constrained — public investment. Instead, existing research converges on the claim that the presence of racial minorities is an enduring, major factor constraining the generosity of American social policy (Gilens 1999; Alesina and Glaeser 2004). These insights are supported by literature in economics showing that

racial diversity acts as a brake on redistributive preferences, reducing public expenditures and tax revenue (Hettich and Winer 1998) and even reducing the likelihood of votes on tax increases (Hopkins 2009). For example, Poterba (1997) finds that racial heterogeneity among age groups has a negative influence on state levels of per-child school spending. Using municipal-level data, Alesina, Baqir, and Easterly (1999) conclude that “voters choose lower public goods when a significant fraction of tax revenues collected on one ethnic group are used to provide public goods shared with other ethnic groups” (1244).

Historical and sociological literature focusing on southern redistributive patterns has likewise concluded that racial diversity constrains rather than induces public spending. However, this scholarship also powerfully demonstrates the ways in which race shapes not just the level of taxation or redistribution but the form and social meaning of tax structures. The South’s high reliance on regressive taxes is not just a consequence of the region’s lower personal income levels (which reduce the revenue that can be generated from income taxes), but also reflects the historical preferences of powerful white elites during the Revolutionary and antebellum period who sought to protect their property and assets — particularly slaves — from taxation (Einhorn 2006). After the Civil War, Radical Reconstruction governments turned to substantial increases in the property tax to fund new public activity, a fiscal policy that antagonized white small farmers, who were now paying more taxes for fewer public benefits than before the war, and helped lead to their embrace of the Redeemers (Thornton 1982). Once white politicians regained control of Southern legislatures during the late 1870s, they cut property taxes while putting in place new taxes that fell hardest on poor blacks (Newman and O’Brien 2011: 10-12). Newman and O’Brien (2011) also contend that tax limitation laws, which create legal barriers to raising taxes by instituting supermajority requirements, were pioneered by southern legislatures in the wake of the Voting Rights Act of 1965 because white elites feared the fiscal consequences of a surge in black political representation (32-3; Knight 2000: 43). Historians have also documented how white taxpayers withdrew their fiscal support from public facilities by fleeing to the suburbs in the wake of desegregation, opposing annexation that would link them fiscally to majority-black urban centers, and refusing to support bond issues for expenditures on public services benefiting black neighborhoods (Kruse 2005).

The Failure of Progressive Fiscal Mobilization in Georgia and South Carolina

Arguments justifying new taxes as investments in modern progress and public services played a key role in the campaigns for higher taxes undertaken by white reformers in South Carolina and Georgia, particularly during the period before the NAACP filed lawsuits directly challenging segregated education. However, not only were these arguments largely unsuccessful at generating public support, but even the “progressive” arguments of campaigns linking new taxes to modern progress assumed

that these higher taxes would continue to underwrite a white supremacist order.¹¹² It was not until political leaders constructed new taxes as guarantors of segregation and a way to force black taxpayers to contribute to public coffers that they won political traction. In this section, before moving to a more detailed discussion of how political leaders in Georgia and South Carolina linked higher taxes to the preservation of segregation during the early 1950s, I briefly discuss the condition of public education in each state and the failure of earlier efforts to address these deficiencies by framing taxes as investments in modern progress.

The Georgia and South Carolina Education Associations, state parent-teacher organizations, and local school boards — the primary members of pro-tax coalitions in both states — emphasized that investments in public schools were sorely needed.¹¹³ During the 1944-1945 school year, South Carolina and Georgia spent about \$65 per pupil, compared to a regional average of \$76.95 and a national average of \$125.41 (O'Brien 1999: 87).¹¹⁴ School teacher salaries were below national averages as well. Within each state, local property tax rates and property values varied widely across school districts. In South Carolina, for instance, the state's ten wealthiest counties had an average property valuation that was two-and-a-half times higher than the property valuation of the ten poorest counties, and local tax levies varied from zero mills to fifty mills. Because Georgia and South Carolina did not maintain state school bus systems, each school district had to buy, maintain, and staff school buses at the local level (if they could afford to do so). In Georgia, twenty percent of school buses were deemed unsafe for students to ride in, and the Director of Schoolhouse Planning for the Georgia Department of Education reported that the majority of Georgia schools did not meet desirable standards for health, sanitation.¹¹⁵ A 1948 survey of the South Carolina school system notes that the "typical small school" (with 1,680 school districts, almost ten

¹¹² Similar assumptions had structured tax reform efforts in both states earlier in the twentieth century. A coalition composed of members of South Carolina's small middle class, public school educators, civic leaders, newspaper editors, and some industrial and business interests successfully pushed for an income tax during the early 1920s. Working-class whites opposed these efforts, which they saw as strengthening an invasive state government and increasing state spending to the benefit of the black population (Hudson 2009). Georgia adopted its income tax during the Depression, under the administration of Eugene Talmadge, whose virulent race-baiting politics would be emulated by his son Herman when he also became governor in the late 1940s (Bartley 1983).

¹¹³ "Proposed S.C.E.A. Legislative Program for 1950-51." General Subjects File Box 1, Folder "Education, Miscellaneous," JFB.

¹¹⁴ *Public Schools of South Carolina*. Nashville, TN: George Peabody College for Teachers. General Subjects File Box 1, Folder "Education, Miscellaneous," JFB.

¹¹⁵ St. John, M.L. 1949. "School Busses Go From Dawn to Dusk." *Atlanta Constitution*. January 5, p. 3. St. John, M.L. 1949. "If State Does Not Help, New Schools Will Not Be Built, Educators Say." *Atlanta Constitution*. January 6, p. 7.

times as many as neighboring North Carolina, South Carolina had plenty of small schools) was “heated with an unjacketed stove,” “in poor repair,” had “no hot lunch program,” and had only unsanitary outdoor toilets.¹¹⁶

The argument that higher taxes would secure public services was particularly visible in the early efforts of reformers in Georgia. Education interests supported a referendum on the 1949 ballot that would authorize the adoption of higher taxes to fund a package of state services, including the Minimum Foundation Plan for Education (MFPE). The Georgia Congress of Parent Teachers planned meetings in every county in the state to explain the referendum and announced plans to use movies, radios, newspapers, and loudspeakers on cars to extol the benefits that voters would receive in exchange for their tax dollars. A spokesperson for the Veterans of Foreign Wars (which also supported the referendum), called the education funding measure a “school slum clearance program.”¹¹⁷

Yet, despite the fact that conditions were particularly poor in the state’s black schools, white reformers in South Carolina and Georgia campaigning for more funds for public education largely ignored black students and assumed new funds would continue to disproportionately benefit white schools. In 1947, the value of school plant per pupil in average daily attendance was \$369 for white students in South Carolina and only \$67 for black students. Less than two percent of black students in South Carolina were transported to school, compared to just over one-third (36 percent) of white students.¹¹⁸ In January 1951, the Georgia State Department of Education estimated that the value of white school buildings in the state was \$136 million, compared to only \$22 million for black school property.¹¹⁹ Public education funding in Georgia amounted to an average of \$80 per year for each black student and \$145 per year for each white student (O’Brien 1999: 66). Even so, materials developed by the Georgia Education Association to urge voter support for the 1949 referendum pictured only white students and teachers and drew no attention to the disparities between black and white schools (O’Brien 1999: 62).

Despite focusing exclusively on the social benefits white southerners would enjoy as a result of higher taxes, reform coalitions were largely unsuccessful at

¹¹⁶ Statistics on the state of the South Carolina education system in the preceding paragraphs come from a 1948 study commissioned by the South Carolina Education Survey Committee. *Public Schools of South Carolina*. Nashville, TN: George Peabody College for Teachers. General Subjects File Box 1, Folder “Education, Miscellaneous,” JFB.

¹¹⁷ M.L. St. John. 1949. “Buttonholing for Tax Vote Is P-TA Plan.” *Atlanta Constitution*. February 26, p. 1.

¹¹⁸ South Carolina Education Survey Committee. 1948. *Public Schools of South Carolina*. Nashville, TN: George Peabody College for Teachers. General Subjects File Box 1, Folder “Education, Miscellaneous,” JFB.

¹¹⁹ Cox, Calvin. 1951. “186 Million Seen New School Cost.” *Atlanta Constitution*. January 1, p. 1.

motivating popular support for revenue generation. Population growth and inflation following the war meant that lawmakers proposed record-high appropriations each time they met to craft a state budget, and citizens were skeptical that such expenditures were necessary. Some suggested that states could meet their needs through eliminating wasteful spending or simply increasing the collection of existing taxes.¹²⁰ One reader wrote in to the *Atlanta Constitution* noting that bus drivers in his county already made more than he would make in his lifetime while teachers were retiring with pensions and able to buy nice cars.¹²¹ Because the educators were pushing for a sales tax to fund education investments, their plans were opposed in both states by labor organizations, which preferred increases to the existing income tax over a regressive tax on consumers.¹²² Retailers also opposed the sales tax, which they felt would reduce sales and increase their administrative costs.¹²³ In Georgia, the 1949 referendum on tax increases to fund school investments was defeated at the polls by a three-to-one margin.¹²⁴

A Sales Tax to Preserve Segregation

Rather than arguments linking higher taxes with investments in modern progress, it was the threat of desegregation that proved the most powerful justification for adopting the general sales tax in Georgia and South Carolina. In the 1930s and 1940s, racial disparities in school funding and facilities formed the basis for equalization suits filed by the NAACP that sought to force states and localities to live up to their “constitutional” obligations under the *Plessy v. Ferguson* doctrine allowing separate facilities for blacks as long as they were equal. Yet, by the mid-1940s, the NAACP came

¹²⁰ There may have been some truth to this latter point. In 1949, Georgia’s Tax Revision Committee Director, William Lester, estimated that as many as half of those Georgians obligated to file state income taxes were failing to do so. Price, Ben. 1949. “Tax Revision, Too, Must Wait.” *Atlanta Constitution*. January 12, p. 9.

¹²¹ M.L. St. John. 1949. “Reader Says Schools Are Pampered.” *Atlanta Constitution*. January 12, p. 8

¹²² *Atlanta Constitution*. 1949. “Hike Income Tax Favored by Anti-Sales Tax Group.” *Atlanta Constitution*. January 6, p. 3. Barrett, Charles. 1949. “New Taxes for Georgia Opposed by AFL Group.” *Atlanta Constitution*. March 13, p. 8A. *Columbia State*. 1951. “Textile Union Hits Proposed SC Sales Tax.” *Columbia State*. February 10, p. 5A. Labor unions, which the power resources perspective sees as the traditional protagonists of redistributive policies (Korpi 1983; Hicks 1999; Huber and Stephens 2001), are historically weak in both South Carolina and Georgia.

¹²³ The Georgia Mercantile Association sent letters to all retailers in the state in advance of the statewide referendum, questioning the need for additional state taxes. *Atlanta Constitution*. 1949. “Hike Income Tax Favored by Anti-Sales Tax Group.” *Atlanta Constitution*. January 6, p. 3. M.L. St. John. 1949. “State Tax Revision Plan Gains Force.” *Atlanta Constitution*. March 18, p. 1.

¹²⁴ M.L. St. John. 1949. “Georgians Kill Service Taxes, 3 to 1.” *Atlanta Constitution*. April 6, p. 1.

to believe that the equalization strategy was consuming substantial organizational resources without making major inroads in the fight against segregation, and the organization began to shift to a strategy of directly challenging the principle of segregated education (Tushnet 1987: 104). In May 1950, the NAACP filed a lawsuit (*Briggs v. Elliott*) in South Carolina on behalf of twenty petitioners from Clarendon County, where school officials had persistently refused to fund buses for black students, many of whom had to walk as far as nine miles to get to school (Kluger 1976: 16-23).¹²⁵ A few months later in Georgia, the NAACP filed a suit against the Atlanta school board seeking not just equal funding for black schools but an end to segregation itself.¹²⁶

These cases galvanized political leaders in both South Carolina and Georgia, who realized that legal challenges could mean an end to segregation. Two Supreme Court cases also decided in 1950, *Sweatt v. Painter* and *McLaurin v. Oklahoma State Regents*, had already effectively overturned the “separate but equal” doctrine with regard to graduate and professional education, and the NAACP now seemed poised to make similar gains in the realm of elementary and secondary education if southern states did not make a substantial effort to invest in the patently-unequal school facilities for black children. Governors in both states were committed segregationists who saw adopting the sales tax as a way to shore up their legal defenses. In South Carolina, the newly-elected governor was James Byrnes, one of the nation’s most well-known and experienced political figures.¹²⁷ Since his (first) retirement from public service in 1947 when Byrnes stepped down as Secretary of State, Byrnes had also emerged as a strong critic of Truman’s Fair Deal policies, which included expansions of the welfare state and the establishment of a permanent Fair Employment Practices Commission (Robertson 1994: 497-501). Georgia’s governor, Herman Talmadge, had failed to win popular support for the sales tax during the 1949 legislative session, but responded to the NAACP lawsuits by linking the issue of school funding to the effort to preserve segregation (O’Brien 1999: 67-69).

Southern policymakers seeking new revenues to spend on “equalization schools” had to adopt specific techniques to mobilize support from white voters. First, they explicitly linked the adoption of new sales taxes to the preservation of the “Southern way of life,” or segregation. Second, advocates of higher revenues chose to generate this revenue from regressive taxes on consumers rather than through higher property or income taxes. Finally, activists mobilized support for the sales tax by simultaneously

¹²⁵ This case would be folded into the set of cases decided in the *Brown v. Board of Education* case before the Supreme Court.

¹²⁶ *Atlanta Constitution*. 1950. “An Unfortunate Court Action.” *Atlanta Constitution*. September 20, p. 14.

¹²⁷ Remarkably, Byrnes had served in Congress (first as a House member and then in the Senate), as a Supreme Court Justice, and as Secretary of State before coming home to South Carolina and deciding to run for governor.

developing plans to abandon the public school system if segregation were outlawed by the courts, bolstering their claims that the sales tax revenue would not be wasted even in an uncertain legal setting.

Linking Taxes to the Social Order

The primary argument these policymakers relied upon in generating support for sales taxes was convincing white constituents that new taxes were linked to a clearly defined benefit: the preservation of segregation. This was not necessarily a simple task. Lawmakers had to emphasize that NAACP legal challenges were existential threats to the system of segregated school facilities. Then, in order to make the argument that sales tax revenues might strengthen the states' positions in these court battles, activists had to delve into the legal foundations of the "separate but equal" provision and make the case that the sales tax would be recognized by the courts as a legitimate effort to meet this constitutional burden. In short, policy actors both had to work to construct the preservation of segregation as a clear, identifiable benefit that could be purchased by new revenues and also had to convince voters that this benefit outweighed the costs of higher taxes.

In his inaugural address to the state legislature in January 1951, newly-elected South Carolina governor James Byrnes argued that adopting a sales tax in order to fund improvements in black schools was the prudent way to protect segregation. Announcing his support for a school building program, Byrnes declared: "One cannot speak frankly on this subject without mentioning the race problem. It is our duty to provide for the races substantial equality in school facilities. We should do it because it is right. For me that is sufficient reason." For many South Carolinians, of course, this was not sufficient reason, and Byrnes himself had more to say on the matter. "If any person wants an additional reason, I say it is wise," he continued. He reminded legislators that the Truman administration was eager to support a Supreme Court decision that would overturn the *Plessy* doctrine allowing "separate but equal" facilities. While "hopeful that the Supreme Court will deny" appeals of this nature, Byrnes noted: "I am hopeful, too, that if in a given case there is shown an honest effort to provide substantially equal facilities, it will favorably influence the opinion of the Court."¹²⁸ Byrnes was aware that many South Carolinians saw little point in investing substantial funds in facilities for black students when the legal landscape remained so unsettled, but he reassured legislators that the new school buildings would "not be wasted." The school building program would require substantial new revenue, and Byrnes admitted that he could "think of good arguments against every tax." But the sales tax would relieve some of the burden on local property taxes and, most importantly, would protect

¹²⁸ "Inaugural Address of the Honorable James F. Byrnes as Governor of South Carolina in Columbia, South Carolina, January 16, 1951." *Journal of the House*, pp. 67-74.

segregation in the public schools, Byrnes argued. "The politicians in Washington and the Negro agitators in South Carolina who today seek to abolish segregation in all schools will learn that what a carpetbag government could not do in the reconstruction period, cannot be done in this period."¹²⁹

The legislative debate over adopting the sales tax in South Carolina was suffused with a realization that the sales tax was key to preserving segregation, and lawmakers repeatedly made this case to their constituents in justifying higher taxes. Robert Figg, the attorney who represented the state of South Carolina in the *Briggs* suit, urged Byrnes to ensure the school building plan was adopted by the state legislature as quickly as possible, knowing that his legal strategy depended on a clear demonstration of commitment to equalization on the part of the state (Kluger 1976: 345). Legislators were not hard to convince of the necessity for the sales tax. A columnist for *The State* newspaper in Columbia noted that even "legislators who ordinarily would vote against such a tax are saying in the State House, 'It's the sales tax or an end to segregation.'"¹³⁰ Debate over the sales tax and educational funding bill in the South Carolina House of Representatives primarily revolved around how much power the proposed Educational Finance Commission should have over how funds were spent. Representative Farley Smith (son of the late U.S. Senator "Cotton Ed" Smith) fumed that the bill was "setting up a commission to pit the Negro minority against the elected representatives of the people" and that "the National Association for the Advancement of Colored People is going to take full credit for this bond issue." However, lawmakers who supported the stiffer veto powers for the commission were adamant that the only way to ensure the tax revenue could protect segregation was if it was used to construct equal educational facilities, which many counties would fail to do if they were left free to make their own decisions about how to allocate funds.¹³¹

Another major debate raged over whether to exempt food from the sales tax, with some legislators arguing that the costs of such a tax would fall primarily on poor South Carolina families. But, lest their concern for low-income households be mistaken for a lack of enthusiasm for the legislation's primary goal, supporters of the food exemption were quick to reassure their fellow lawmakers that they supported the broader goal of using the tax to preserve segregation. "I'm not trying to sabotage the school program," Representative Anderson hastened to explain when he offered an amendment to exempt food from the sales tax, "because if the day ever comes when the

¹²⁹ "Joint Assembly — Address by Governor," Wednesday, January 24, 1951. *Journal of the House*, pp. 160-166.

¹³⁰ Tom Chadwick. 1951. "Executive Session." *The State*. February 11, p. 10A.

¹³¹ *The State*. "Public School Expansion Plan Survives." *The State*. February 23, p. 1A.

racess are mixed in this state, we are doomed.”¹³² The argument that the sales tax would guarantee segregation in South Carolina was so pronounced, in fact, that some lawmakers chafed at the constant rebuttal of any efforts to amend the bill by reference to how such a change would amount to encouraging desegregation. During a debate over whether to further reduce taxes on soft drinks, Senator Marion Gressette argued, “we have already allowed [the soft drink bottlers] 10 percent and now you want to give them another ‘leettle’ handout. What is happening in this senate at this minute is that some of you who thought you could go along with us on this sales tax to preserve the things of the South that we hold so dear are being misled and are going along with a crowd that is out to wreck the sales tax and educational program.” In response, Senator Ralph Wilson declared: “Every time I say anything opposed to this bill or express by vote in opposition to anything I’m accused of wrecking the sales tax and educational program.”¹³³

In Georgia, political leaders did not embrace a rhetoric linking higher taxes to the preservation of segregation until after the 1949 referendum was voted down and the NAACP filed a set of lawsuits challenging disparities in educational funding and the principle of segregation. Legislative debate over the appropriations bill and tax program during the 1949 session rarely involved discussion of racial disparities within the school system and instead focused on issues such as whether to divert some funding from schools to “farm-to-market” roads in order to court rural support for the bills.¹³⁴ Once the 1949 legislature had approved new education funding, conditional on voter approval of the tax referendum, the *Atlanta Constitution* editorial board warned that the federal courts had ruled states must provide equal school facilities for both races and that “if the irregularities are not remedied” suits were sure to be filed.¹³⁵ However, the link between higher taxes and the preservation of segregation was not a regular feature of debate over the referendum.

This began to change beginning in August 1949, when the NAACP worked with a group of parents to file a federal suit demanding parity of school facilities in Irwin County, Georgia. Talmadge linked the issue of school funding and the state’s efforts to preserve segregation during a radio address on October 22, 1949, in which he denounced the Irwin County suit and stated: “These agitators . . . know we cannot furnish either white or Negro schools with identical facilities overnight. [. . .] Georgia would fight this dastardly effort with all the strength and resources we have” (quoted in

¹³² *The State*. 1951. “Sales Tax Bill Runs Gantlet of Whittling Amendments.” *The State*. March 11, p. 1A.

¹³³ *The State*. 1951. “Senate Gives Third Reading to \$150 Million Spending Bill.” *The State*. March 31, p. 1A.

¹³⁴ M.L. St. John. 1949. “Rural Roads, Unit Vote Studied as Double-Barrel Boost to Sales Tax Okay.” *Atlanta Constitution*. January 16, p. 1A.

¹³⁵ *Atlanta Constitution*. 1949. “On the Whole, It Was a Good Job.” *Atlanta Constitution*. February 21, p. 8.

O'Brien 1999: 68). According to O'Brien, the *Atlanta Constitution* editors endorsed the Minimum Foundation Plan for Education as the solution to the Irwin County case only three days after Talmadge's speech.

Concerned about winning re-election in 1950, Talmadge continued to oppose the sales tax during the 1950 legislative session (Pajari 1988: 82). In the months leading up to the 1951 legislative session, however, the NAACP filed another lawsuit, this time in Atlanta, demanding not just equal funding but an end to segregation.¹³⁶ In his column the next day, *Atlanta Constitution* editor Ralph McGill argued that there was "sound legal reasoning against believing the court will rule on inequalities in the common schools, especially where an effort is being made to equalize them. [. . .] The Supreme Court will hardly invade the field of grade and high schools without a period of warning." McGill called for "leadership in law and in creating [. . .] a program of equalization," cautioning that "if we do not the Supreme Court will be forced to invade that field, as Southern failure to meet the problem forced it into the college level."¹³⁷ Lieutenant Governor Marvin Griffin sharply criticized the suit and said a better route to solving both the school funding crisis and addressing racial disparities was to build more — but separate — schools. He predicted that the General Assembly would pass the Minimum Foundation Program for Education early in the legislative session.¹³⁸

Indeed, the legislature acted swiftly during the 1951 session. The House and the Senate unanimously passed legislation establishing a school building authority that could issue bonds to begin school construction, with House Speaker Fred Hand asserting that the plan "has more possibilities than anything I have seen in a long time to equalize facilities for white and Negro students."¹³⁹ A few weeks later, the General Assembly also swiftly passed the sales tax bill and adjourned for the year. House Floor Leader Frank Twitty summed up the session with a boast, saying, "In my opinion, this School Building Authority will do more for all, including the colored people, than has been done ever before for schools by any other state to my knowledge."¹⁴⁰

¹³⁶ *Atlanta Daily World*. 1950. "Equal School Facilities Suit Filed Here." *Atlanta Daily World*. September 20, p. 1.

¹³⁷ Ralph McGill. 1950. "The Courts and Schools." *Atlanta Constitution*. September 21, p. 1.

¹³⁸ M.L. St. John. 1950. "Griffin Raps Suit by Atlanta Negroes." *Atlanta Constitution*. September 21, p. 14.

¹³⁹ Celestine Sibley. 1951. "School Building Proposal Passes House, 130 to 0." *Atlanta Constitution*. January 20, p. 11. William Bates. 1951. "School Building Authority Approved by State Senate." *Atlanta Constitution*. January 30, p. 5.

¹⁴⁰ Dupont Wright. 1951. "Far-Reaching Legislation Passed by '51 Assembly." *Atlanta Constitution*. February 17, p. 5.

Forcing Racial Minorities to Pay a 'Fair' Share

The second technique that policymakers used to generate support for new revenue during the 1950s was proposing the adoption of the sales tax, rather than an increase in the income tax that both states already used as part of their revenue system. The sales tax was more politically palatable than an increase in the income tax for several reasons, including the fact that it was generally more acceptable to business interests (with the exception of retailers), which were eager to see more of the tax burden born by consumers rather than by commercial property values or profits. However, another major reason the sales tax was an attractive tax for generating new revenue to invest in school equalization was because the burden of the sales tax would fall heaviest on the very group that would receive the most benefits from the sales tax: low-income, black taxpayers.

This logic of “fairness” had a longer historical lineage in southern states: arguments about incorporating black residents into the tax regime had been used in other southern states to justify earlier sales tax adoptions, during the 1930s. For instance, in a report detailing debates over sales taxes during the Depression, Haig and Shoup (1934) noted that in Georgia the sales tax “has been at times advocated as a means whereby the negro could be made to contribute toward the support of government,” even though “this argument does not appear to have been widely employed in public debate on the question” (152). In Mississippi, Haig and Shoup write, “there was some feeling that negroes had been contributing little or nothing toward the support of government, even indirectly through the real estate levy, and that it would be proper to ask them to pay something through a sales tax” (168).

These arguments were echoed in the debates over the sales tax that took place in South Carolina and Georgia in the late 1940s and early 1950s. Many white taxpayers felt that they already bore a disproportionate burden of paying for services that went to racial minorities. One letter writer to the *Atlanta Constitution* criticized the paper for an editorial that had pointed out the poor conditions of many black schools. “I wish you could see the place where I went to school, and not a word of complaint,” wrote Clara Robbins. “Yet I studied and learned. [. . .] Now, overnight, so to speak, Negroes clamor for marble halls. If the Negro taxes had to pay for it, what kind of place would it be? They are tremendously ungrateful.”¹⁴¹ The only way that increased investments in black schools would be fair, according to this logic, was if black taxpayers also had to pay to generate the additional needed revenue. Indeed, in his autobiography, Governor Talmadge recounts a telling anecdote of how he heard from an advisor about a general store owner named “Old Jim” who opposed the sales tax and was upset at its passage — until he realized its costs would also be born by black taxpayers. According to Talmadge’s account: “He figured the sales tax would be bad for business. A few weeks

¹⁴¹ Letter to the editor from Clara Robbins. 1949. “Irwin Suit.” *Atlanta Constitution*. October 29, p. 8.

later, my man came back and told me that Old Jim wasn't as mad anymore. Apparently some black people had been in his store buying provisions. When they got ready to pay and he added three percent to their bill, they were right perplexed. You see, they thought the sales tax was just for white folks. Old Jim got a big kick out of telling them otherwise" (Talmadge 1987: 109).

In South Carolina, Governor Byrnes confidently asserted that "the majority of Negroes will not complain about paying the sales tax to help educate their children. They are asking for better schools and better transportation facilities and I am confident they will be willing to help pay for those benefits."¹⁴² In December 1951, a few months after the sales tax was adopted, Hannah Brown of Charleston wrote to Byrnes to protest the taxation of food and medicine under the new sales tax law. The governor's reply, written only a few days later, argued that granting exemptions for food and drugs would cut into the revenue that could be raised from the sales tax. Byrnes reminded Mrs. Brown that the revenue from the new tax was earmarked for use in the public school system and warned that the stakes of the school construction program were high: "if we do not equalize school facilities for the races, we cannot maintain separation of the races in schools," he wrote. But the governor also noted that "Negroes complain most of the sales tax and ask that food and clothing be exempted, but they will benefit more than the whites by reason of the equalization of the facilities. If the Legislature grants exemptions upon most of the things they buy, then they will receive most of the benefit and bear little of the burden. That would not be fair."¹⁴³ The governor's reasoning proved highly persuasive to Mrs. Brown, whose subsequent response is also preserved in governors' files: "I assure you that your references to the equal school facilities [. . .] convinced me that no matter what a hardship it may be, we should willingly give our state the sales tax on the items judged by those trusted with our affairs," she wrote.¹⁴⁴

Creating a Private Alternative

The third technique Southern lawmakers employed in order to shore up the case for new taxes to fund spending on racial minorities was to proceed with plans to abandon the public school system if their bet on investing in "equalization schools" was ultimately voided by the Supreme Court. By reassuring the public that black and white

¹⁴² *The State*. 1951. "SC Will Abandon Public School System if Segregation is Banned, Byrnes Warns." *The State*. March 17, p. 1A.

¹⁴³ Letter from Mrs. Samuel C. Brown to Governor James F. Byrnes, December 14, 1951; Letter from Governor James F. Byrnes to Mrs. Samuel C. Brown, December 17, 1951, Legislative Matters File, 1950-1955, A-V, Folder "1951-52 Sales Tax," JFB.

¹⁴⁴ Letter from Mrs. Samuel C. Brown to Governor James Byrnes, December 20, 1951, Legislative Matters File, 1950-1955, A-V, Folder "1951-52 Sales Tax," JFB.

students would never attend school together, even if the courts outlawed segregation, supporters of the sales tax sought to push back against the argument that these investments could be in vain if they failed to head off a legal challenge. According to columnist for *The State* R.E. Grier, the argument that “the state would find itself in the position of having spent much money for better schools, but with no guarantee of separation of the races,” was a major line of attack for anti-sales tax forces in South Carolina.¹⁴⁵ Pledges that schools could be abandoned if sales tax dollars failed to purchase permanent segregation addressed white taxpayers’ concerns that even if a sales tax would force black households to pay their “fair” share of taxes funding the new schools, whites’ higher incomes meant that they would continue to subsidize the majority of the costs for the school investment program.

In South Carolina, the first major endorsement of the private school plan came in the midst of the legislative debate over the sales tax bill in South Carolina, after the House had passed the bill on to the state Senate. In March 1951, Governor Byrnes made an address to the South Carolina Education Association’s annual convention in which he proclaimed that the state would “reluctantly [. . .] abandon the public school system” if the courts outlawed segregation. The statement made the front page of *The State*, whose headline read, “SC Will Abandon Public School System If Segregation Is Banned, Byrnes Warns.”¹⁴⁶ If the state were to suspend public education, Byrnes explained to the press a few weeks later, “it would automatically stop the expenditure of the sales tax revenue, since it is earmarked, it may not be spent for any other purpose than schools.”¹⁴⁷ *The State* editorial board backed up Byrnes’ position, writing: “We trust that the federal courts will see that South Carolina is making an earnest effort to establish equal facilities. And, given time, this will be accomplished. But if the issue is forced, the general assembly, which provides the money, would, in our opinion, stand right with Governor Byrnes in his position in this matter [and seek to abolish the public school system].”¹⁴⁸

When the NAACP filed a lawsuit challenging unequal schools in Atlanta in September 1950, Georgia proponents of the sales tax were also confronted with the prospect that tax dollars might be spent on desegregated schools. Talmadge and his supporters in the legislature began preparations for abandoning the public school system if the Supreme Court overturned “separate but equal” education, and these plans became a selling point for advocates of the sales tax. A few weeks after the

¹⁴⁵ R.E. Grier. 1951. “Around the State House.” *The State*. February 13, p. 4A.

¹⁴⁶ *The State*. 1951. “SC Will Abandon Public School System if Segregation is Banned, Byrnes Warns.” *The State*. March 17, p. 1A.

¹⁴⁷ *The State*. 1951. “Spending Bill Shuttled to Conference Committee.” *The State*. April 3, p. 1A.

¹⁴⁸ *The State*. 1951. “Segregation.” *The State*. March 19, p. 4A

NAACP suit was filed in Atlanta, Roy Harris, the top lobbyist for the Minimum Foundation Program for Education and a key Talmadge political ally, argued that if the Atlanta public schools desegregated, whites and industry would migrate out of the city and whites would refuse to tax themselves to pay for desegregated education, choosing instead to put their children in private schools (O'Brien 1999: 81-82). In an editorial in his own paper, the *Augusta Courier*, Harris wrote: "If the negro is not willing to live with us under the pattern of segregation then we should change our plans for levying millions of dollars of taxes on our necks as [sic] to be used. . . for destroying everything on the earth the white man holds sacred in race relations." He suggested that "we ought to do away with the public school system and devise another to take its place. We could establish some type of private school system in this state whereby the white people. . . could pay in accordance with their ability for the education of their children" (quoted in O'Brien 1999: 80).

In January 1951, when the Georgia General Assembly moved ahead with legislation to adopt a sales tax, they guarded against the threat that tax money would be "wasted" on desegregated schools by also adopting legislation that required the denial of public funding to any white school that admitted black students.¹⁴⁹ Talmadge originally wanted to include language that would authorize the state to use public funds to provide grants for educational purposes that could be used at private schools, but this provision was dropped in order to avoid a constitutional amendment (O'Brien 1999: 84-85).

Early Successes

The techniques employed by southern policymakers resulted in the successful institutionalization of sales taxes in both Georgia and South Carolina. Not all aspects of the new taxes were necessarily popular with taxpayers. As Hannah Brown's letter to the governor revealed, South Carolina citizens particularly protested the imposition of sales taxes on food and medicine. Another disgruntled taxpayer wrote to the governor, declaring "it is a disgrace that this state must stoop so low as to tax the milk which our children drink."¹⁵⁰ Yet despite the sales tax's initial unpopularity, it never faced a serious challenge in South Carolina. As Dobrasko (2005) notes, South Carolina voters re-elected the vast majority of the state legislators who had approved the sales tax during the 1951 session (15). Legislators focused on currying favor with constituents by proposing

¹⁴⁹ *Atlanta Constitution*. 1951. "Ask Millions for Schools To Bolster Segregation." *Atlanta Constitution*. January 20, p. 11.

¹⁵⁰ Letter from James H. Alexander to Governor James Byrnes, December 4, 1951. Legislative Matters File, 1950-1955, A-V, Folder "1951-52 Sales Tax," JFB.

amendments such as the exemption of food and groceries, rather than arguing the tax should be repealed.¹⁵¹

More significant to segregationist politicians was the success the sales taxes seemed to secure in staving off legal challenges to the white supremacist order. The South Carolina state legislature passed the sales tax in April 1951 and the Educational Finance Commission charged with administering the school building program held its first meeting just three weeks before Robert Figg made his opening arguments in the *Briggs v. Elliott* case. Byrnes, who sat as an *ex officio* member of the Commission, made it clear that the first order of business was to disburse funds to Clarendon County so that the black schools there could be immediately improved (Kluger 1976: 345). In a surprise move designed to undercut Thurgood Marshall's trial strategy, Figg conceded on the first morning of the *Briggs* arguments that current school facilities for black children were inadequate in Clarendon County, but detailed the equalization plan that would begin in July and said he was merely asking for time to make the segregated schools truly separate and equal (Robertson 1994: 508). Figg called E.R. Crow, the new director of the state Educational Finance Commission, as a witness for the state so that he could explain the proposed allocation plan for the new sales tax money (Yarbrough 1987: 184).

The three-judge panel endorsed the state's arguments in a 2-1 decision, requiring South Carolina to report back on the progress it had made in upgrading black schools but upholding the constitutionality of segregation itself. The decision infuriated the panel's dissenting member, Judge J. Waties Waring. Yarbrough (1987) quotes from Waring's wife's diary, where she recounted how Waring complained that Judge John Parker, the swing vote on the panel, had argued during a post-hearing conference that "Jim Byrnes will equalize schools; just give him time. Jim found this state in awful condition — you know South Carolina was in awful shape when he took over — did this at great personal sacrifice to pull this State up and we must help him — he is taxing the people to raise the money and we can't hinder him by interfering with State affairs" (189). Indeed, when the state filed a formal report of its progress with to the district court in December 1951, it reported that conditions in Clarendon County's black schools had changed dramatically: the state had accepted a \$261,000 bid for a new black high school in Summerton that would open in September 1952, plans were underway for two new elementary schools for black children, teachers' salaries had been equalized, and buses now transported both black and white children to and from school (Kluger 1976: 531-2). Marshall had appealed the district court's original decision to the Supreme Court, but the Court ordered a re-hearing where Figg prevailed again by arguing that South Carolina had acted quickly to rectify inequities between black and white schools (534). Marshall was forced to appeal the decision to the Supreme Court

¹⁵¹ Statement of Earle E. Morris, Jr., Member from Pickens County, n.d., Legislative Matters File, 1950-1955, A-V, Folder "1951-52 Sales Tax," JFB.

for a second time, while Byrnes and the white taxpayers of South Carolina celebrated the success of their sales-tax-fueled strategy for preserving segregation.

Disillusionment and Disinvestment

Instead, the most profound challenge to the new regime of taxation established by southern policymakers in the early 1950s came only as the promises made to white taxpayers unraveled. Ultimately, of course, the courts turned against the logic that Figg and Byrnes — as well as other southern lawmakers seeking to use school investments to secure segregation — had placed at the heart of their legal strategy. *Briggs v. Elliott* was folded into the set of cases that were heard by the Supreme Court as *Brown vs. Board of Education of Topeka, Kansas*, and on May 17, 1954, the Court announced its momentous decision declaring segregation unconstitutional.

The reaction from white South Carolina taxpayers was swift, bewildered, and suffused with outrage. Roughly one hundred letters written by South Carolina residents to Governor Byrnes in reaction to the *Brown* decision have been preserved in the governor's papers at the South Carolina Department of Archives and History, and many of these letters reference the failure of the sales tax plan to preserve segregation.¹⁵² Unsurprisingly, given the terms on which the building program had been presented to South Carolina taxpayers, some letter writers urged the immediate suspension of the school equalization program. Thomas R. Miller wrote Governor Byrnes the day after the *Brown* decision was announced, declaring it the “most tragic blow which has befallen the South since Appomattox, and it is a continuation of the Confederate War which an unprincipled president tricked the South into beginning.” He “humbly” offered a suggestion: “that the State immediately suspend all construction on Negro schools. [. . .] I do not see any use in continuing to build schools for the Negroes, with the white people footing the bill.”¹⁵³

Other correspondents went further, urging the governor not just to cut off funds to black schools but to also repeal the taxes that had been adopted to fund public schools for black students. For instance, J.R. McVicker wrote: “All [the negroes'] skills and training has been given by the South. Their schools have been bought and paid for by funds derived from taxes, ninety-nine percent of which has been paid by the white people of the South. They do not appreciate it and now I feel that we should cut off every penny of support to their schools and let them cook in their own Juice. Lets [sic] see if that benevolent Supreme Court or any one from the North is going to step in and give them the money to operate their schools.” The first plank in his attached “Proposed Plan for Operation of Schools Under Non Segregation Ruling” was titled “Taxes,” and

¹⁵² *Briggs v. Elliott* File, B-S, Folder “1954 S.C. Letters About Supreme Court Decision,” JFB.

¹⁵³ Letter from Thomas R. Miller to Governor James Byrnes, May 18, 1954, *Briggs v. Elliott* File, B-S, Folder “1954 S.C. Letters About Supreme Court Decision,” JFB.

read: "Repeal all school taxes as such. All tax for education to come out of the general fund."¹⁵⁴ Similarly, Wilson J. Eubanks wrote that he felt as though the taxes he had "paid to help build schools for the negros [sic] have been paid in vain." If black children were not content with attending the "equal" schools that had been built for them in his county, he stated, "[I] cannot see any reason to continue Sales Tax in this state [. . .]"¹⁵⁵

In contrast, some letter writers expressed their willingness to pay *more* taxes if that would help preserve segregation. Echoing the perverse civic logic that had pervaded the initial debate over the sales tax, L.M. Norman reassured Governor Byrnes that "we can have seperate [sic] schools, and I would support a plan that would abolish our public school system in order to keep seperate [sic] schools. There may be a need for higher taxes if this occurs [sic], but I had rather pay higher taxes than to have mixed schools."¹⁵⁶ The owner of a sales and service business in Charleston wrote in with a similar commitment: "My father and myself stand ready able and willing, any time the state does away with public schools, to donate 2 or if necessary 3 or 4 times the amount of taxes that were charged against us for school purposes. Neither of us have children of school age, but we want to keep the school kids separate, and am willing to pay for it. I think that this is the opinion of most white South Carolinians."¹⁵⁷

Whether they urged the suspension of the building program, called for the abolition of the sales tax, or volunteered to pay more taxes to fund a segregated school system, the white taxpayers who wrote to Governor Byrnes following the *Brown* decision shared the belief that their tax dollars had purchased them the right to secure their preferred social order. As Walsh (2010) also finds in her research, southern whites believed because they contributed more sales-tax dollars to public coffers than blacks (a common belief, no matter the actual incidence of the tax), they also had the right to determine how those funds were spent — and on what terms these fiscal commitments could be sustained or revoked.

Byrnes did temporarily suspend the equalization program after the *Brown* decision, but building resumed a few months later once several schools for black students could be relocated closer to black neighborhoods (*New York Times* 1954a; 1954b). This resumption of building by no means represented a concession to the Supreme Court's decision. Instead, Byrnes argued that locating new schools for black

¹⁵⁴ Letter from J.R. McVicker to Governor James Byrnes, May 27, 1954, Briggs v. Elliott File, B-S, Folder "1954 S.C. Letters About Supreme Court Decision," JFB.

¹⁵⁵ Letter from Wilson J. Eubanks to Governor James Byrnes, May 19, 1954, Briggs v. Elliott File, B-S, Folder "1954 S.C. Letters About Supreme Court Decision," JFB.

¹⁵⁶ Letter from L.M. Norman to Governor James Byrnes, June 1, 1954, Briggs v. Elliott File, B-S, Folder "1954 S.C. Letters About Supreme Court Decision," JFB.

¹⁵⁷ Letter from L.M. Denaux to Governor James Byrnes, May 22, 1954, Briggs v. Elliott File, B-S, Folder "1954 S.C. Letters About Supreme Court Decision," JFB.

students closer to their homes would help forestall further lawsuits by the NAACP. Black students may not be satisfied with modern buildings, he noted, and might still demand access to white schools closer to home. In other words, the sales tax revenue could continue to secure what Byrnes called “voluntary segregation” even after the 1954 court decision (*New York Times* 1954b).

Conclusion

Existing accounts of how race constrains welfare state development in the United States emphasize public unwillingness to support redistribution toward racial minorities and the historical legacy of racist southern veto points in Congress. My analysis of little-known episodes of substantial public investment in black schoolchildren on the part of white taxpayers in South Carolina and Georgia suggests that tax policy, and particularly the logics of fiscal mobilization during a critical period of revenue generation, has also played a key role in structuring the relationship between race and redistribution. White taxpayers were in fact willing to participate in a new regime of higher taxation, but only under two conditions: these new taxes had to also incorporate black consumers (who were seen as unfairly escaping the burden of contributing to state revenues) and, most importantly, the taxes must guarantee the preservation of segregated education. When this second guarantee unraveled with the Supreme Court decision in *Brown v. Board of Education* — a case that had its roots in the same South Carolina suit that had galvanized the state’s decision to pursue a sales tax — white taxpayers retracted their pledge to invest in black schools.

Ultimately, rather than representing a failed case of fiscal mobilization, southern tax exceptionalism should be seen as the product of successful efforts to enlist taxpayers into a specific type of fiscal order. By no means does the debate over the sales tax during the late 1940s and early 1950s entirely account for the structure and effort of contemporary tax systems in South Carolina and Georgia. However, without investigating the historical processes through which taxpayers were incorporated into state-level tax regimes at critical moments in the development of these revenue systems, we miss key elements in the relationship between taxation and the American federal state.

Chapter 5: The Language of Fiscal Mobilization in Texas, Georgia, and New York

How did ordinary citizens understand proposals to adopt major new taxes during the postwar period? While in the previous two chapters I analyzed how political elites justified new taxes in order to mobilize popular support for revenue generation, I turn my focus in this chapter to a different group of political actors: citizens — many of them taxpayers — in New York, Texas, and Georgia. Popular claims about taxation might diverge from elite arguments for a number of reasons. First, existing research shows that public opinion about taxes is closely related to the level of taxation (Campbell 2009), suggesting that proposals for tax increases may simply induce negative reactions from taxpayers concerning the higher costs they are expected to bear. That is, regardless of the types of narratives elites employ to justify new taxes, citizens across different states might react similarly (and negatively) to these justifications. Second, even if citizens' opinions about new taxes are more nuanced than simply opposing higher tax costs, they might reflect a different set of concerns than those articulated by political elites. Pro-tax lawmakers may adopt rhetoric tailored to win over a specific group of taxpayers or address a particular concern, even knowing that most citizens would embrace higher taxes for a different set of reasons. Because tax adoptions in these three states were not subject to voter approval, political elites may have made arguments about new taxes that were designed to convince politically-active interest groups — such as educators or the business community — that these taxes were justifiable, even if these arguments had little resonance with the broader group of citizens.

My analysis in this chapter draws on an original dataset of approximately 1,500 constituent letters from Georgia, Texas, and New York (including both letters preserved in state archives and letters to the editor published in major newspapers) written during debates over the adoption of major new taxes in each state. By coding these letters for a set of pro- and anti-tax sentiments and then analyzing differences in the prevalence of these sentiments across states, I examine the extent to which letter writers' claims about new taxes varied across states and diverged from the justifications offered by political elites within their own states. I find that letter writers did not simply protest the adoption of new taxes. Rather, a substantial portion of letter writers in each of these states offered arguments in *favor* of new taxes. I also find that while letter writers in all three states made similar, broad statements about the costs and benefits of adopting the sales tax, they invested these statements with very different meanings that varied substantially by state. More specifically, though criticisms of the sales tax commonly focused on the burden it imposed on taxpayers and praise centered on the fact that the sales tax would help the state meet its funding commitments, letter writers in Texas, New York, and Georgia articulated different understandings of what made a tax burden

unacceptable or what benefits could be secured by adequately funding state government.

Finally, I also find that the arguments made by pro-tax letter writers only partially overlapped with the justifications made in each state by pro-tax lawmakers. In line with the arguments made by Governor Rockefeller, letters from New York reflected a concern with the state's business climate and applauded the fact that the sales tax would provide property tax relief. Letter writers in Texas frequently mentioned how the sales tax would force all taxpayers to pay their fair share of the costs of government and would treat all taxpayers equally, which echoed the claims made by business interests in the Texas sales tax debate. And, like political elites who pointed to the sales tax as a way of making racial minorities bear a greater share of the cost of school funding, letter writers in Georgia were particularly concerned with the problem of these groups of Georgians escaping taxation. At the same time, letter writers sometimes failed to pick up on arguments made by pro-tax lawmakers, and sometimes offered unique claims of their own about the merits of new taxes.

I argue that these differences signal the importance of studying how elites' arguments about taxation are received by ordinary citizens, rather than simply accepting them as representative of popular opinions. However, I also suggest that these differences between elite and popular narratives about taxation may be a function of the unsettled nature of definitions of fiscal citizenship at the moment when these taxes were first debated. Fiscal mobilization is perhaps best viewed as a process of political elites providing the public with a set of arguments about taxes, some of which get taken up and some of which do not. Over time, claims about why taxes are justifiable and what type of government they are meant to underwrite take hold in a more enduring fashion as the success of past arguments informs the likelihood that future justifications for new revenues will take similar form.

How Do "Fiscal Citizens" Understand Taxes?

Ordinary citizens often appear in accounts of tax politics as suspicious, angry — at best, reluctant — taxpayers who resist the efforts of political elites eager extract more revenue. This impression is not entirely unwarranted. Research demonstrates that public opinion of taxes is closely linked to economic self-interest, with taxpayers sensitive to changes in the overall level of taxation and particularly concerned with taxes that impact their individual behavior (see review in Campbell 2009). Scholars have also suggested that fiscal mobilization, particularly in the American context, must overcome substantial resistance to taxation (Zelizer 2003). Even when fiscal mobilization has occurred, the dramatic efforts of state builders to justify new taxes can serve to emphasize the profound ambivalence that many Americans seem to possess about paying taxes (Sparrow 2011; Pearson 2014).

The challenges of fiscal mobilization have prompted existing literature to focus primarily on the strategies employed by political elites to win over reluctant taxpaying publics. Less attention has been paid to citizens themselves and the ways in which they navigate, negotiate, and help shape the terms of the social contract of taxation. Yet the views and actions of ordinary citizens are crucial to understanding how new taxes are justified and ultimately accepted by taxpayers. If taxes help inaugurate new models of “fiscal citizenship,” analyses must investigate how these “fiscal citizens” themselves think about tax payments and how they understand their own participation in these fiscal regimes. I argue that citizens not only actively engage with the potential terms of justification offered by political elites, but they also participate in the process of drawing boundaries around which types of taxpayers are asked to contribute to the costs of government and how the benefits of public investments are in turn redistributed among taxpayers.

Measuring the terms on which ordinary citizens justify taxes or how these justifications are used to draw the boundaries of social citizenship is not an easy task. Polls and surveys (to the extent that they exist for debates over state-level tax adoptions during the 1950s and 1960s) capture citizen sentiments through the use of closed questions and pre-set categories of meaning. In this analysis, I make use of a different type of data generated by ordinary citizens during these tax debates: the letters they wrote to policymakers and newspaper editors. Letters offer a unique source of data on citizen views of proposed policies because they allow correspondents to construct their own narratives and claims about these policies. These narratives, in turn, can help illuminate the terms on which citizens are willing to endorse policies and the logics of worth they employ to make sense of who deserves public support (Dauber 2013).

My analysis in this chapter relies on a unique dataset of approximately 1,500 letters written in New York, Texas, and Georgia during their respective debates over adopting the general sales tax. Table 3 (below) provides basic descriptive statistics about these letters. Because each variable in this dataset could only take a value of zero or one, all figures displayed in tables in this chapter can be read as percentages; for instance, a value of 0.046 for “income tax” means that 4.6 percent of all letters in the dataset mention the income tax.

Although these pieces of communication could take several forms — letters, postcards, or telegrams — the bulk of the dataset (86 percent) is composed of letters, so for convenience’s sake I refer to all three types as “letters.” These letters are unevenly distributed across Georgia, New York, and Texas, with the largest share (62 percent) coming from a 25 percent random sample of 3,667 sales tax letters preserved in the Texas state archives. The vast majority of these letters were written to Governor Price Daniel in June and July 1961 in response to his request for public comment on the sales

tax bill under debate in the state legislature.¹⁵⁸ Three-quarters of the New York letters were collected from Governor Nelson Rockefeller's files in the New York State Archives and consist of letters from constituents discussing the state sales tax, written to the governor during the 1965 legislative debate over the sales tax as well as during the following six months as the sales tax was implemented and continued to be a topic of public discussion. These letters are supplemented by a set of 51 letters to the editor (25 percent of the total New York dataset) published in the *Albany Knickerbocker News* during the legislative debate over the sales tax (January - April 1965).¹⁵⁹ All Georgia letters included in the dataset were drawn from letters to the editor published in the *Atlanta Constitution* between November 1948 and March 1951, the extended period during which adoption of the general sales tax was debated in that state.¹⁶⁰ Letters to the editor in both Georgia and New York were included in the dataset if they made any mention of taxation or revenue generation, either at the state or federal level.

I use a mixture of letters written directly to policymakers and letters published in major newspapers because not all states preserved large amounts of citizen correspondence to governors and other lawmakers. Letters to Governor Price Daniel in Texas appear to be a unique case in which a public appeal to citizens for views on the sales tax resulted in a large, fairly complete, and well-preserved set of letters about this issue. In contrast, while I located 155 citizen letters discussing the sales tax preserved in Governor Nelson Rockefeller's files, the actual number of such letters that were sent to the governor appears to be much higher. In response to a constituent inquiry about mail related to the sales tax, a Rockefeller aide indicated that 2,522 letters were received on this topic.¹⁶¹ Finally, no constituent letters regarding the sales tax appear to have been

¹⁵⁸ This random sample was stratified by the racial diversity, median family income, metro status, political partisanship, and Spanish-surname population share of the county where the letter was written. Racially diverse counties were also over-sampled in order to achieve sufficient sample size for statistical analysis. See methodological appendix for a complete discussion of data sources.

¹⁵⁹ The *Albany Knickerbocker News* was selected for this analysis because the paper had the highest state political news content of any newspaper in New York during the 1970s (Morgan 1978). Fifty-two percent of the paper's political column-inches were devoted to state politics. Only the *New York Times* and the *Syracuse Post-Standard* published a higher number of total political column-inches, but these papers favored national and international politics coverage, devoting only 11.6 percent and 13.6 percent of political column-inches, respectively, to state politics.

¹⁶⁰ In 1950, the *Constitution* had the second-highest circulation of any paper in Georgia (187,000, or about 25 percent of the total circulation of Georgia daily newspapers), behind the *Journal's* circulation of 250,000 (33 percent). The two papers would merge their weekend editions in March 1950, although they retained separate newsrooms and editorial policies (Grimes 1985: 5, 78-81). Both papers were considered liberal, though *Constitution* editor Ralph McGill frequently took a more vocal editorial stance than the *Journal* on issues of race relations (Teel 2001: 240-241).

¹⁶¹ Letter from A.A. to Morgan O'Brien. October 13, 1965. Microfilm reel #35. NAR.

preserved in the files of Governor Herman Talmadge in Georgia (or Governor James Byrnes in South Carolina).

However, citizens in these states expressed their opinions on taxes through multiple venues, including in letters to the editor of major state newspapers. Social scientists have used letters to the editor to measure both the tone and content of citizen views on the issues of the day (Perrin and Vaisey 2008). Such letters are the product of editorial selection, so they do not represent the total population of citizen correspondence on these issues. One study found that editors tend to prioritize individual submissions (rather than letters from interest groups) but also tend to preference emotionally charged letters that are seen as authentic, personal discussions of issues close to the letter writer's heart (Wahl-Jorgensen 2001). Letters to the editor also underrepresent the views of women, young people, and racial minorities (Cooper, Knotts, and Haspel 2009).

Both letters to the editor and letters written to policymakers therefore have important limitations as guides to citizen views on policy issues. I use these letters as an important marker of how ordinary citizens reacted to tax proposals without claiming that they are representative of all residents of that state. In particular, I focus on how letter writers — who arguably had more passionate views about these issues than citizens who chose not to submit letters — chose to craft their appeals regarding tax policies. What arguments did they see as most persuasive? What language was viewed as most compelling in making this case? Most importantly, by comparing the prevalence of each argument across several states, my analysis focuses on drawing out broad patterns rather than carefully measuring the nuances of public opinion within any one state.

Data and Methods

Letters were coded using a set of 25 pro- and anti-tax sentiment codes, six additional sentiment codes referencing how letter writers viewed government and public spending, and nine codes for specific types of taxes (e.g., “income tax,” “selective sales tax,” or “tobacco tax”). A full list of codes and definitions appears in the appendix. Although sentiment codes could be applied without reference to a specific tax, codes for specific taxes were only applied in conjunction with at least one sentiment code. Sentiment codes were developed both inductively and deductively. Some codes were drawn from existing literature on taxation and public opinion. For instance, because literature suggests that Americans are less likely to support taxes that fund public spending on stigmatized minority groups, a code was created for “spending on undeserving groups.” In addition, careful reading of a subset of the letters in each state and a pilot coding project using a subset of letters helped determine whether the draft set of codes was adequately capturing the major sentiments expressed by letter writers.

Table 3: Descriptive Statistics

	All States	GA	NY	TX
# of Communications	1,522	379	206	937
Letters	0.861	1.00	0.859	0.806
Postcards	0.105	0.00	0.044	0.162
Telegrams	0.036	0.00	0.112	0.035
Share with No Codes	0.411	0.425	0.248	0.442
Share with a Pro-Tax Argument	0.239	0.161	0.252	0.267
Share with an Anti-Tax Argument	0.365	0.319	0.558	0.341
Share Making an Argument About:				
Sales Tax	0.388	0.185	0.612	0.421
All Non-Sales Taxes	0.158	0.121	0.136	0.177
Business Tax	0.056	0.037	0.005	0.074
Income Tax	0.046	0.026	0.068	0.049
Pipeline Tax	0.030	0	0	0.049
Selective Sales Tax	0.021	0.011	0.000	0.030
Alcohol Tax	0.027	0.021	0.010	0.033
Property Tax	0.017	0.026	0.044	0.008
Tobacco Tax	0.011	0.021	0.019	0.005
Luxury Tax	0.007	0.013	0.015	0.003
Letter Signed by:				
Male	0.647	0.744	0.709	0.594
Female	0.200	0.127	0.194	0.232
Couple	0.084	0	0.015	0.133
Petition (3 or more signatures)	0.030	0.013	0.058	0.030
Unknown	0.038	0.116	0.024	0.010
Demographic Characteristics of County of Origin				
Metropolitan	0.686	0.514	0.829	0.722
Above State Median Income Level	0.728	0.893	0.792	0.653
Mean Republican Vote Share	0.428	0.314	0.298	0.497
Mean Adult Non-White Population Share	0.162	0.279	0.066	0.139
Mean Spanish Surname Population Share	0.110	.	.	0.110

Letters could contain both pro- and anti-tax sentiments, although not every letter contained a code-able claim about taxes. Indeed, 41 percent of letters in the dataset were not assigned any codes. Typically, these letters expressed a general statement of support or opposition regarding taxes, but did not provide any additional explanation of the letter writer's views. For instance, Mr. and Mrs. S.N. Donea wrote Governor Daniel after hearing his speech about the sales tax proposal in the Texas state legislature, saying only: "Dear Sir, We are back of you [sic] in the stand you took on your TV speech

in regard to the Sales Tax.”¹⁶² Texas, which had the highest rate of no codes applied, also had the highest share of telegrams and postcards. Telegrams and postcards tended to be shorter pieces of communication and were more likely than letters to have no codes applied: 63 percent of postcards and 47 percent of telegrams had no codes applied, compared to only 38 percent of letters. Even in Georgia and New York, which had much lower numbers of postcards and telegrams, letters to the editor also sometimes mentioned taxation without elaborating on it, as in this letter from Georgia concerning issues in the upcoming state election: “Some of the greatest needs in Georgia are better schools and roads, and adequate help to dependent persons. Matter of taxation is one to seriously consider. Also whether your candidate is genuinely opposed to FEPC and other so-called civil rights legislation, interference from influences outside our state, and Communism. Also how he stands on the County Unit System [. . ..]”¹⁶³

Across all three states, negative claims about taxes were more common than positive claims about taxes, although these claims were more evenly balanced in Texas than in other states. This balance is likely due to the nature of Governor Daniel’s appeal, which came during an address broadcast on television and radio, and seems to have motivated Texans on both sides of the sales tax issue to send letters to the governor. In contrast, when letter writers self-select into the sales tax debate by sending letters to the editor or writing to lawmakers of their own accord, they seem more likely to express negative sentiments about taxes. States with the lowest share of letters expressing positive claims about taxes (16 percent in Georgia) and the highest share of letters making negative claims about taxes (56 percent in New York) were both states where this type of public appeal was absent.

Across all three states, when letters made a claim about a specific type of tax, they were most likely to discuss the general sales tax. Thirty-nine percent of all letters in the dataset made a specific claim about the sales tax, ranging from a high of 61 percent of letters in New York and 19 percent of letters in Georgia. The second-most referenced tax varied by state. New Yorkers were more likely than letter writers in other states to talk about the income tax (6.8 percent) or the property tax (4.4 percent), while letter writers in Georgia and Texas talked about taxes on business more than other types of non-sales taxes. Texans were more likely than letter writers from other states to discuss any type of non-sales tax, likely reflecting the fact that Governor Daniel himself opposed the general sales tax and championed a package of business and selective sales taxes.

¹⁶² Postcard from Mr. and Mrs. S.N. Donea to Governor Price Daniel, June 6, 1961. Box 314, Folder “Bexar [blue, #1].” Records of Price Daniels, Texas Office of the Governor, Archives and Information Services Division, Sam Houston Regional Library and Resource Center, Liberty, Texas (hereafter GPD).

¹⁶³ “No Need to Change.” Letter to the editor. *Atlanta Constitution*. June 24, 1950, p. 2.

Burdens and Benefits: How Letter Writers Criticize and Praise the Sales Tax

In this section, I focus specifically on the subset of letters that made claims about the general sales tax, the new tax under debate at the time these letters were written in each state. I discuss two main findings from this analysis. First, while negative arguments about the sales tax were common in these letters, I also find that a substantial portion of letters offered at least one argument in favor of the sales tax. And second, I find few statistically significant differences across states in the likelihood of letter writers mentioning the most common pro- and anti-sales tax arguments. The sales tax is frequently criticized for being a burden on taxpayers and for imposing an unfair distribution of the tax burden. When praised, the sales tax is most commonly cited as a way to help the state meet its funding commitments. However, I argue in the following section that these similarities belie very different understandings in New York, Georgia, and Texas of what qualifies a burden as too costly or “unfair” and what type of government letter writers seek to fund with sales tax payments.

Because the share of all letters making pro-sales tax or anti-sales tax arguments varied substantially across states, in the subsequent analysis I analyze each claim about the sales tax as a share of the total pro- or anti- sales tax arguments made in that state. In other words, if letter writers made a pro-tax argument about the sales tax, *how* did they choose to praise the sales tax? And when letter writers criticized the sales tax, what specific arguments did they marshal to make their case? Analyzing the letters in this manner allows me to fairly compare the distinctive ways that Texans, Georgians, and New Yorkers made their case for and against the sales tax.

Criticizing the Sales Tax

What did New Yorkers, Georgians, and Texans see as the biggest drawbacks to a sales tax? I included ten separate codes for negative claims about the sales tax in my analysis of the letters that constituents penned to newspapers and governors in each state, ranging from the general criticism that the sales tax was too much of a burden to more specific arguments, such as the claim that the sales tax would spur inflation or would harm efforts to preserve state’s rights (a full list of codes is available in the appendix). I find that almost sixty percent of the letters that made a specific claim about the sales tax made at least one negative argument about the sales tax (letters could contain both positive and negative statements). However, the share of sales-tax letters that contained a critical claim varied: 46 percent of sales-tax letters in Georgia, 57 percent of sales-tax letters from Texans, and 75 percent of sales-tax letters in New York offered up a specific criticism about the sales tax (see Table 4).

Table 4: Criticisms and Praise of the Sales Tax

CLAIM	All States	GA	NY	TX	P-Value	Level of Significance
Any type of criticism						
<i>As a share of all letters</i>	0.227	0.084	0.456	0.234	0.000	***
<i>As a share of all letters discussing the sales tax</i>	0.592	0.457	0.746	0.566	0.000	***
Any type of praise						
<i>As a share of all letters</i>	0.157	0.100	0.155	0.181	0.001	***
<i>As a share of all letters discussing the sales tax</i>	0.437	0.543	0.254	0.430	0.000	***

In all three states, the top criticisms levied against the sales tax were that it imposed too much of a burden on taxpayers and that this burden was unfairly distributed (see Table 5). In New York, the most common attack against the sales tax was that it was too much of a burden, with this complaint appearing in 53 percent of all anti-sales tax letters from that state. Large shares of anti-sales tax letter writers from other states also made this argument, which was mentioned in 56 percent of anti-sales tax letters from Georgia and 42 percent of anti-sales tax letters from Texas. The top anti-sales tax argument in Georgia and Texas, however, was that the sales tax imposed an unfair distribution of the tax burden. Fifty-nine percent of Georgia letter writers criticizing the sales tax made this claim, compared to 56 percent of Texas correspondents. New Yorkers also criticized the sales tax on this front; the argument that the sales tax created an unfair distribution of the tax burden was the second-most common point of criticism in that state, appearing in 45 percent of all anti-sales tax letters. Relatedly, the use of the word “unfair” to describe the sales tax — while not as common as the more-specific claim that the sales tax imposed an unfair distribution of tax costs — appeared in 17.5 percent of all letters criticizing the sales tax (Appendix Table 3). This claim made up a similar share of criticisms in letters from all three states in the dataset, ranging from a low of 15.6 percent in Georgia to a high of 18.5 percent in Texas.

Table 5: Common Pro- and Anti-Sales Tax Arguments

	NY	GA	TX	P-Value	Level of Significance
TOP PRO-SALES TAX ARGUMENTS (as a share of letters praising the sales tax)					
Helps state meet its commitments					
NY/GA	0.500	0.289	--	0.069	*
NY/TX	0.500	--	0.510	0.915	
GA/TX	--	0.289	0.510	0.009	***
Combination: helps state meet its commitments combined with helps fund public education					
NY/GA	0.594	0.474	--	0.319	
NY/TX	0.594	--	0.543	0.595	
GA/TX	--	0.474	0.543	0.446	
TOP ANTI-SALES TAX ARGUMENTS (as a share of letters criticizing the sales tax)					
Burden not fairly distributed					
NY/GA	0.447	0.594	--	0.149	
NY/TX	0.447	--	0.560	0.096	*
GA/TX	--	0.594	0.560	0.733	
Too much of a burden					
NY/GA	0.532	0.563	--	0.765	
NY/TX	0.532	--	0.421	0.104	
GA/TX	--	0.563	0.421	0.153	

Notably, differences among states in the rate at which all three of these arguments appeared in anti-sales tax letters were not statistically significant at the 0.10 level. In other words, the rate at which letter writers discussing the sales tax expressed that it was too burdensome, unfairly distributed, or simply “unfair” did not vary significantly across states. (In the one exception to this pattern, Texans were more likely than New Yorkers to claim that the sales tax burden was unfairly distributed, but this difference was only weakly significant.) These results suggest that constituents who feel negatively about the sales tax tended to use similar language and arguments to express their dissatisfaction. Unsurprisingly, their criticisms focused on the costs that a new tax would impose, as well as on how those costs would be distributed across groups of taxpayers.

Letter writers arguing that the sales tax represented too much of a burden to taxpayers made claims about how the tax would impose a financial hardship, frequently noting how they already felt overtaxed under the current tax regime. “As an

already-over-taxed resident of New York I wish to register disapproval of your apparent plans for a State sales tax," wrote Don Hunt. "If I had an unlimited income, as some people seem to have, a 4% sales tax would probably be insignificant. But in my case, and in the case of millions of other New Yorkers, a 4% sales tax would be frighteningly significant. It means, in effect, a 4% reduction annually in our ability to provide certain necessities and luxuries for our families."¹⁶⁴ Another common practice by letter writers protesting the burden of a sales tax was to enumerate their monthly budget in order to illustrate how their pocketbook simply could not bear additional costs. "We get \$58.60 together each mo. social security and my husband draws \$35 a mo. old age assistance," wrote Mrs. W.F. Cox to the Texas governor. "\$93.60 per mo. to live on. My husband is an invalid from a stroke and we have a home and of course we have school, County and city taxes to pay each year. Water, lights and telephone bills to pay each mo. We have a burial insurance to pay and a fire insurance on the house. No hospitalization because I can't meet the bills. Now with everything so high tell me how can we elderly people live if you put a tax on the things we have to buy. If we should need a Dr. pray tell me how we will pay for medicine and then adding a tax on what little we can by [sic]."¹⁶⁵

When letter writers protested the unfair distribution of the sales tax burden, they frequently focused on how the tax would disproportionately impact low-income households. For instance, one letter writer from Georgia contended that the sales tax would "hurt the poor man with [a] large family more than anyone else,"¹⁶⁶ while a Texan wrote in to explain that he considered the sales tax "a most unfair tax as it taxes the small wage earner at the same rate as it does the large wage earner."¹⁶⁷ The sales tax was "grossly unfair" argued another letter, signed by Mr. and Mrs. Urban Hemmi from Hallettsville, Texas, since "[t]he poor man who must scrimp and deny himself pays the same levy as the millionaire who denies himself nothing to purchase the same item."¹⁶⁸ William Viertel of Canton, New York, wrote Governor Rockefeller in January 1965 to express a similar sentiment. "There is no doubt that more money must be raised in some manner; I support all your proposals for education, combating stream pollution, and all

¹⁶⁴ Letter from Don Hunt to Governor Rockefeller. January 11, 1965. Microfilm reel #35. Central Subject and Correspondence Files, 1956-1973. Governor Nelson A. Rockefeller. Second Administration, 1963-1966. New York State Archives, Cultural Education Center, Albany, NY (hereafter NAR).

¹⁶⁵ Letter from Mrs. W.F. Cox to Governor Price Daniel. June 5, 1961. Box 314, folder "Cherokee [blue label]." GPD.

¹⁶⁶ "A Heavy Burden." Letter to the editor. *Atlanta Constitution*. February 19, 1951, p. 8.

¹⁶⁷ Letter from Robert Christian to Governor Price Daniel. n.d. Box 314, folder "Bexar [blue label, #1]. GPD.

¹⁶⁸ Letter from Mr. and Mrs. Urban Hemmi to Governor Price Daniel. July 12, 1961. Box 316, folder "Lavaca [blue label]." GPD.

the rest,” he explained. “However, I protest most earnestly against the use of a sales tax. It is the most elementary economics that a sales tax weighs most heavily on the lower-income groups.”¹⁶⁹

Praising the Sales Tax

The fact that letter writers would have criticisms of a proposed new tax is not particularly surprising. Although tax politics overall were less politicized during the postwar period (and did not neatly align with partisan divisions in the manner of contemporary tax debates), proposals to add major new taxes to the state revenue system were still greeted with skepticism by wary taxpayers. More surprising is the fact that substantial portions of letter writers in each state offered at least one argument in support of the sales tax. Overall, 44 percent of letters making a specific claim about the sales tax contained at least one positive argument about the sales tax (see Table 4). As with the negative claims, the prevalence of positive arguments varied significantly across states: only 25 percent of sales-tax letters in New York contained at least one specific point of praise for the sales tax, compared to 44 percent of such letters in Texas and a majority of sales-tax letters (54 percent) in Georgia.

The most popular positive claim made about the sales tax — appearing in 47 percent of the letters with at least one positive claim about the sales tax — was that it would help the state meet its funding commitments (see Table 5). This argument was also the most common positive claim made by pro-tax letter writers in both Texas and New York, where it easily outstripped all other arguments, appearing in roughly fifty percent of pro-sales tax letters in each state. Letter writers making this argument pointed out that revenue from a sales tax would allow the state to fund its existing programs and commitments, or allow the state budget to keep up with costs associated with a growing population. “This is just a note to voice my opinion on the fact that the State of New York needs more money and that it must be raised by additional taxes,” Grace Williams wrote Governor Rockefeller in January 1965. “I am in favor of more taxes if the money is needed, but feel very strongly that it should come from a State Sales Tax or something of the like.”¹⁷⁰ In Texas, Mrs. Clinton Jacques wrote to Governor Daniel, explaining: “As an average citizen I realize the need of a general sales tax. This type of tax is the only way to keep up the institutions that are absolutely necessary.”¹⁷¹

The argument that the sales tax would help the state meet its funding commitments was markedly less prevalent in pro-sales tax letters from Georgia, where

¹⁶⁹ Letter from William K. Viertel to Governor Nelson Rockefeller. January 9, 1965. Microfilm reel #35. NAR.

¹⁷⁰ Letter from Grace Williams to Governor Nelson Rockefeller. January 11, 1965. Microfilm reel #33. NAR.

¹⁷¹ Letter from Mrs. Clinton Jacques to Governor Price Daniel. June 7, 1961. Box 315, folder “Falls [red label].” GPD.

it appeared in only 29 percent of these letters. This claim was significantly less likely to be made in letters from Georgia than in letters from both New York and Texas.

However, there is some evidence that Georgians may have substituted a more specific claim — that the sales tax would fund public education — for the broader point that the sales tax would fund state commitments. Although funds from the sales tax were never statutorily dedicated to school funding in Georgia (as they were in South Carolina), pro-tax lawmakers nonetheless repeatedly presented the sales tax as enabling investments in Georgia public schools during debate over the adoption of the new tax. Indeed, mentions of the sales tax funding education appeared in 24 percent of pro-sales tax letters from Georgia, which is significantly higher than the rate at which this argument appeared in Texas and is also higher (although not significantly so) than the share of letters from New York making this claim (Appendix Table 2).¹⁷² Furthermore, if the codes for the sales tax enabling the state to meet its commitments and the sales tax helping fund public education are combined to form a broader claim about the sales tax helping the state maintain and/or make investments in public services (including public education), this sentiment easily becomes the most prevalent positive claim that letter writers in all three states make about the sales tax (Table 5). Differences among these states in references to this broader category of positive claims are also no longer statistically significant.

Finally, just as a substantial share of anti-sales tax letter writers in each state had described the sales tax as “unfair,” many pro-tax letter writers also described the sales tax as “fair” (see Appendix Table 2). This description appeared in 15.6 percent of pro-sales tax letters in New York and made up a larger share of pro-tax claims in Georgia (26.3 percent) and Texas (26.8 percent), but the overall differences in the usage of this term were not significant across states.

In other words, not only do letter writers in Georgia, Texas, and New York tend to use similar types of arguments to criticize the sales tax, they also share a great deal when it comes to the way they choose to praise the sales tax. The rate at which letter writers describe the sales tax as “fair,” or link it to the state’s ability to meet its funding commitments or invest in public education, do not exhibit statistically significant differences across these three states. At the same time, it remains unclear whether Georgians, Texans, and New Yorkers have the same outcomes in mind when they argue in favor of the sales tax. What counts as “fair” for letter writers in each state? And what benefits do these letter writers see resulting from public investments in schools and

¹⁷² In addition, there is little overlap between those letter writers in Georgia who praised the sales tax for helping the state meet its funding commitments and those who praised the sales tax for funding public education, suggesting that these arguments are substituting for each other rather than co-occurring in the same letter. Within the set of letters making either of these arguments, only eleven percent contain both claims, while the remaining 89 percent of letters choose either to praise the sales tax for funding education *or* for meeting state commitments.

other services? In the following section, I analyze finer distinctions among the secondary arguments made by correspondents from these three states and argue that important differences do exist among how letter writers are thinking about taxes.

State Regimes of Taxation

What do letter writers in Georgia, Texas, and New York mean when they say that the sales tax is burdensome or unfair? What type of “commitments” do they have in mind when they praise the sales tax for providing sufficient public funding, and what type of state are they eager to see carry out these investments? In order to examine these questions, I expand my analysis in this section to include the secondary arguments letter writers in each state used to discuss the general sales tax. I also analyze a second set of codes applied to these letters that were designed to capture sentiments related to government and public spending. I argue that while letter writers in these three states used broadly similar language to frame their most common criticisms and defenses of the sales tax, the secondary arguments that letter writers employed to make their case indicate they had distinctive ideas about the proper role of taxes and scope of government in each state.

Although letter writers from Texas and Georgia had particular concerns related to the details of sales tax debates in their respective states, both groups of constituents shared the view that certain types of taxpayers — particularly migrant, Mexican farm workers in Texas and poor, black households in Georgia — were escaping taxation. Letter writers in these two states were often suspicious of government, which they saw as corrupt and undemocratic, but they were willing to contribute to public investments as long as the new fiscal bargain promised by the sales tax forced all residents to share the costs of government. By contrast, letter writers in New York exhibited very little concern that certain groups were escaping taxation in their state and rarely mentioned corruption in state government. Instead, New Yorkers were distinctive in the way they viewed the sales tax through an economic lens, arguing over whether it would harm or help the state’s business climate and focusing on property tax relief to a degree not seen in letters from other states.

Sales Taxes in the South: Forcing Everyone to Pay Their Fair Share

Letter writers from Georgia and Texas did not hold state government in high regard, viewing it as captured by lobbyists and designed to serve the interests of those in power rather than ordinary citizens. About six percent of all letters from Georgia (not just letters mentioning the sales tax) and seven percent of such letters from Texas made a reference to corrupt government, compared to just one percent of letters in New York (see Appendix Table 1). One Georgian who wrote into the *Atlanta Constitution* linked perceptions of government corruption to the failure of a 1949 referendum that would have called for new taxes to fund expanded social services: “The reason the people

refused to approve new taxes was because there is so much waste, laziness, propaganda and corruption in our entire educational system," he wrote.¹⁷³ "What this State needs is less nepotism, less feeding from the public trough, more efficiency, more economy, and so on ad infinitum," fumed another Georgia constituent.¹⁷⁴

Governor Price Daniel in Texas, who opposed the sales tax, railed against pressure from lobbyists affiliated with business interests during the televised speech he made to Texans at the close of the regular legislative session. In the letters he received from constituents after this address, they mirrored his disgust in even more colorful tones. Lobbyists for the sales tax "have become a public nuisance and there ought to be a law banning them from the legislature," wrote a married couple from Hill County, who also described school teachers as "'gang[ing] up'" on legislators and "act[ing] like pigs at a trough."¹⁷⁵ "The House of Representatives seems to have too many men trying to make a name for themselves," wrote Mrs. Sidney Stone from Temple, Texas. Legislators were "not responsible to the desires of the majority of the people, instead going to Austin to see their names in the paper as heading some big bill" and "listening to the money'd lobbyist, not the individual business men, who cannot afford to throw around big money."¹⁷⁶ Another constituent suggested driving special interests groups out of the capitol building, just as "Christ had to drive the money changers from the Temple."¹⁷⁷

Although many letter writers from Georgia and Texas were critical of government corruption and often expressed disgust with organized efforts to impose the sales tax, a substantial share of Georgians and Texans still wrote in to support the sales tax. Indeed, among letters that specifically discussed the sales tax, those from Georgia and Texas offered arguments in favor of the sales tax at significantly higher rates than in New York. Only 25 percent of all letters from New York discussing the sales tax made a pro-sales tax argument, compared to 43 percent of sales-tax letters in Texas and a *majority* of sales-tax letters (54 percent) in Georgia (see Appendix Table 2). How did these pro-tax voices justify the imposition of a tax when many in the state viewed the government as corrupt or untrustworthy? My analysis indicates that, for these pro-tax voices, expanded public services were acceptable only if all taxpayers —

¹⁷³ "Too Much Waste." Letter to the editor. *Atlanta Constitution*. May 5, 1949, p. 14.

¹⁷⁴ "Futile." Letter to the editor. *Atlanta Constitution*. December 22, 1949, p. 16.

¹⁷⁵ Letter from Mr. and Mrs. Roy C. Jones to Governor Price Daniel. June 13, 1961. Box 316, folder "Hill [blue label]." GPD.

¹⁷⁶ Letter from Mrs. Sidney Stone to Governor Price Daniel. June 1, 1961. Box 313, folder "Bell [blue label]." GPD.

¹⁷⁷ Letter from Ralph H. Barger to Governor Price Daniel. June 1, 1961. Box 314, folder "Bexar [blue label #2]." GPD.

particularly racial minorities — were forced to bear at least some share of the higher costs of state government. Letter writers in both Texas and Georgia indicated a concern with certain groups escaping taxation, and correspondents from Texas were particularly likely to discuss how the sales tax would treat all taxpayers equally and force certain groups to pay their fair share of taxes.

The claim that certain groups were escaping taxation appeared in only 1.5 percent of all letters from New York, yet it was made in 4.1 percent of letters in Texas and ten percent of letters from Georgia (these differences were all statistically significant at the 0.01 level) (see Appendix Table 1). For one correspondent, who complained that the quality of property tax enforcement differed dramatically across the state, the problem of tax evasion was inextricably linked to corruption. “In a small county the tax collector lets things slide so he can get elected,” the letter writer asserted. “In about 155 of Georgia's 159 counties a large number of the citizens escape taxation. More and more the burden falls on those who live in large, populous counties where taxes are collected in full.”¹⁷⁸ Another letter writer pointed the finger at inefficient (although not necessarily crooked) government: “Why, because of the tax delinquents in our State, must our administration seek the expedient of increasing the burden on an already overtaxed people rather than seek out the evaders? With a little system and intelligence these evaders could be brought to light without demanding the people as a whole to empty their pockets. For example, the auto registrations could be checked to see that each car owner has filed a tax return. This alone would bring in thousands of dollars.”¹⁷⁹

But other letter writers, both in Texas and Georgia, took aim not at corrupt or ineffective state government but at particular groups of residents who they saw as a drain on public resources. While some of these references were very general — for instance, remarking broadly on the “many thousands of people in this State whom are enjoying all of the freedoms and facilities of the State at the expense of the present tax payers” — others singled out the poor, unemployed, or non-property owners as particular culprits.¹⁸⁰ Several letter writers from Georgia referred to “parasites” who

¹⁷⁸ “Who Pays Taxes?” Letter to the editor. *Atlanta Constitution*. March 8, 1949, p. 14.

¹⁷⁹ “Hunt the Invaders.” Letter to the editor. *Atlanta Constitution*. September 7, 1950, p. 18. Indeed, tax collection was a major problem for Georgia’s understaffed State Revenue Department. The state had no withholding provisions to facilitate collection of the state income tax, and in 1949 the Tax Revision Committee Director, William Lester, estimated that as many as half of those Georgians obligated to file state income taxes were failing to do so. Lester indicated that the state was likely losing \$25 million to \$30 million a year due to failure to adequately enforce all its tax laws. Price, Ben. 1949. “Tax Revision, Too, Must Wait.” *Atlanta Constitution*. January 12, p. 9. *Atlanta Constitution*. “Tax Collection System Needed, Says Lester.” *Atlanta Constitution*. March 25, p. 2.

¹⁸⁰ Letter from Dan L. Clark to Governor Price Daniel. June 2, 1961. Box 317, folder “Nueces [red label].” GPD.

lived off the state while refusing to work.¹⁸¹ One letter writer described a couple she knew — an alcoholic carpenter and his “partially blind” wife — who lived off welfare benefits while owning two homes and vacationing in the “famous Lakes of Wisconsin.” As a second example, she offered the case of a “colored” family: “The man and his wife are both on old-age pensions. [. . .] They have telephone service, a cow, pigs and chickens. They own their home and a very good horse that the husband used to plow gardens for the sum of 1.75 per hour. He would not say giddap [sic] to that horse again if he was sitting in his lap. To make the situation more ridiculous, they are applying for an increase in their pensions.”¹⁸² Meanwhile, she lamented, her own husband worked hard to pay their taxes. “Will they be increased so that some more folks will be able to sit in the court square and do nothing more than squirt the essence of Ol’ Brown Mule into the dust?” she asked.

Indeed, several letter writers from Georgia singled out black taxpayers for contributing little to the cost of public services and rejected the idea of paying higher taxes to fund education investments specifically aimed at black students. “[F]ew Negroes pay any tax at all,” wrote J.J. Whitfield of Hawkinsville. “The Negro secures educational, health and other benefits, which is cheerfully accorded him, but he takes out more than he puts in the treasury, something the Civil Rights howlers should think about.”¹⁸³ A few weeks after the NAACP filed a lawsuit against the Atlanta school board seeking equal funding for black schools, Mrs. Edith Hall of Fairburn, Georgia wrote: “All this fuss the Negroes are making about “equal this and equal that” irks me. They are getting better now than they deserve, because most of what they get is paid for with the white man’s dollar and not theirs. If the Negroes’ tax money was put to one side and no more added to it he wouldn’t get very much.”¹⁸⁴ Just a few days later, an Atlanta resident wrote in with similar feelings: “It is hard to believe that the courts, lawfully, could order any state, county or city government to allow the Negro to attend classes with our children or spend our money building them more schools than they pay for. It is a known fact that the Negroes pay only 7 percent of the taxes collected in the entire United States. Therefore, they are already enjoying 83 per cent more for their money than the white people.”¹⁸⁵

¹⁸¹ “No Tax Increase.” Letter to the editor. *Atlanta Constitution*. July 15, 1949, p. 14; “Politics.” Letter to the editor. *Atlanta Constitution*. January 7, 1950, p. 8; “Consumer Taxes.” Letter to the editor. *Atlanta Constitution*. July 22, 1949, p. 10.

¹⁸² “Pensions.” Letter to the editor. *Atlanta Constitution*. February 1, 1950, p. 10.

¹⁸³ “Voter Registration Fee.” Letter to the editor. *Atlanta Constitution*. July 7, 1949, p. 10.

¹⁸⁴ “Negro Taxes.” Letter to the editor. *Atlanta Constitution*. October 2, 1950, p. 12.

¹⁸⁵ “Let Them Vote.” Letter to the editor. *Atlanta Constitution*. October 9, 1950, p. 10.

In Texas, on the other hand, letter writers who made this argument tended to focus on a different group of minorities seen as escaping taxation: migrant farmworkers from Mexico. Because farm workers performed seasonal labor, they may not stay in Texas for the entire year and they usually did not own property. Many Texans felt that this combination of circumstances allowed migrant workers to get away with not contributing to the costs of state government, even as they purportedly received the benefits of public investments. “The braceros come into Texas and take out much of the money with no contribution to the state,” complained one letter writer.¹⁸⁶ In a similar vein, W.F. Childres of Alvin, Texas, wrote: “We have many transients who work in Texas one year, and in some other state another year. They get the same governmental benefits and services that we get, and pay little for them.”¹⁸⁷ And George Lennox, a Texan who lived just outside of Austin, referred to “the many Latin folk who, at present, make little contribution toward the state's services.”¹⁸⁸

Pro-sales tax letter writers in these southern states — most notably those from Texas — were also quite explicit that they saw the sales tax as the solution to the free rider problem posed by all types of individuals who “escaped” taxes under the current system, including racial minorities. The sales tax’s capacity to ensure that a broader swath of residents contributed to the cost of state government is reflected in the relatively high levels of correspondents in Texas and Georgia who made statements about how the sales tax would treat everyone “equally” or how it would force certain groups to pay their fair share of state taxes. Thirty-one percent of pro-sales tax letters in Texas made the claim that the sales tax would force certain groups to pay their fair share of taxes, making it the third-most popular point of praise in the pro-sales tax letters. Texans made this argument at a significantly higher rate than letter writers from New York, where only 12.5 percent of letter contained this claim (see Appendix Table 2). Twenty-one percent of pro-sales tax letters in Georgia also made reference to the idea that a sales tax would force certain groups to contribute their fair share in tax payments, but differences in the rate of these claims across Georgia and the two other states are not statistically significant. In addition, while only 19 percent of pro-sales tax letters in New York claimed that the sales tax would treat everyone “equally,” this was actually the most prevalent argument made in pro-sales tax letters in Georgia (where it showed up in 32 percent of pro-sales tax letters) and it also appeared in 39 percent of these letters

¹⁸⁶ Letter from D.M. Koeninger to Governor Price Daniel. June 15, 1961. Box 315, folder “Garza [red label].” GPD.

¹⁸⁷ Letter from W.F. Childres to Governor Price Daniel. June 19, 1961. Box 314, folder “Brazoria [red label].” GPD.

¹⁸⁸ Letter from George Lennox to Governor Price Daniel. May 31, 1961. Box 316, folder “Hays [red label].” GPD.

from Texas. Only the difference between Texas and New York was statistically significant.

Letter writers from Texas and Georgia saw the sales tax's broad reach as a key selling point of this manner of generating revenue. Because the sales tax would "reach all the people"¹⁸⁹ and "would affect everyone,"¹⁹⁰ in some sense this meant that "every person will pay the same."¹⁹¹ Many letter writers invoking the idea that the sales tax treated everyone equally went on to elaborate that this equal treatment would spread the cost of government to all citizens. "Let all pay and the burden will be light on all," wrote an *Atlanta Constitution* reader from Douglasville, Georgia.¹⁹² "Government and public services are for the benefit of all the people, and all the people should help pay for it," wrote another Georgian.¹⁹³ "Since all the people benefit from the major expenditures of government, (highways, police, welfare), I feel all the people should share the cost. That would be a general sales tax with no exceptions," wrote J.W. English of Mathis, Texas. Another Texan, Medford A. McCoy, expressed a similar sentiment in his letter to Governor Daniel: "I believe that it is a great honor to be a Texan and a great privilege to live in Texas," he stated. "I believe that all of us who are so privileged should share the responsibilities as well as the benefits. I believe that all of the people in this state should pay their equitable share of the costs of state government. I agree that the more fortunate should pay more, but I firmly believe that each and every adult citizen should pay something! Obviously, I personally believe that the general sales tax is the proper way to solve our tax problems."¹⁹⁴

Indeed, because it reached everyone, the sales tax was also the ideal instrument to compel all individuals to contribute to the cost of government. Letter writers argued that the sales tax would place a "sense of political responsibility on the non-property-owning citizens of the state"¹⁹⁵ or ensure that "the burden of educating our children

¹⁸⁹ "Ire Aroused." Letter to the editor. *Atlanta Constitution*. January 23, 1951, p. 12.

¹⁹⁰ Letter from Katherine Chambers to Governor Price Daniel. June 9, 1961. Box 317, folder "Smith [red label]." GPD.

¹⁹¹ Letter from Mrs. Fred W. Hinds to Governor Price Daniel. n.d. Box 317, folder "Potter [red label]." GPD.

¹⁹² "Let All Pay." Letter to the editor. *Atlanta Constitution*. July 24, 1949, p. 12B.

¹⁹³ "Fair, Just Taxes." Letter to the editor. *Atlanta Constitution*. July 22, 1949, p. 10.

¹⁹⁴ Letter from Medford A. McCoy to Governor Price Daniel. July 14, 1961. Box 319, folder "Yoakum [red label]." GPD.

¹⁹⁵ Letter from W.S. Shipman, Jr. to Governor Price Daniel. June 12, 1961. Box 317, folder "Nueces [red label]." GPD.

would be the problem of all of us — not just the property owners.”¹⁹⁶ “I believe the people of Texas should pay their own way,” wrote Mary Prince of Gladwater, Texas, in her letter endorsing the sales tax. “[E]ach person needs to assume part of the obligation of government, however small that may be. Let’s quit seeing how we can make the ‘other fellow’ pay, and keep out of paying any part of it ourselves. Let’s quit shirking our own responsibilities.”¹⁹⁷ In Georgia, one resident wrote in to the *Atlanta Constitution* to offer his take on the state’s tax troubles: “It seems that the State of Georgia has a problem on its hands as to how to tax the parasites of the State as well as the honest men. Why not levy a small tax on all consumer goods? How then would anyone avoid paying that form of tax?”¹⁹⁸

Once again, many letter writers who invoked these claims — particularly those from Texas — also singled out racial minorities as the specific groups which would be forced to contribute to state coffers under a sales tax. Referring to “transient laborers,” one Texas constituent wrote that he “would like to see some of these people pay their share for a while. These are the people who are cared for by welfare agencies, their children eat free lunches at school and various organizations support them at Christmas. Yet they drive a new car, eat until they are full and their children have more and better toys than mine. I believe that a sales tax would get money from them. A state income tax would not touch them, just as the federal tax also does not.”¹⁹⁹ Another writer, who identified herself as a “teacher, mother, and citizen” argued that a sales tax “is the only one which will reach our hoard [sic] of migrate [sic] and transient workers who absorb our school facilities and yet assume no responsibility of the community. Lets [sic] have action on this sales tax and increase our teachers pay!”²⁰⁰

The Economic Consequences of the Sales Tax in New York

New Yorkers who penned letters about the proposed general sales tax expressed a very different view of government and the costs and benefits of higher revenues than did correspondents from Georgia and Texas. First, although letters from New Yorkers suggested that they were wary of the unrestrained growth of state social programs, they

¹⁹⁶ Letter from Ruth Ellis to Governor Price Daniel. June 25, 1961. Box 317, folder “Rockwall [red label].” GPD.

¹⁹⁷ Letter from Mary Prince to Governor Price Daniel. June 7, 1961. Box 315, folder “Gregg [red label].” GPD.

¹⁹⁸ “Consumer Taxes.” Letter to the editor. *Atlanta Constitution*. July 22, 1949, p. 10.

¹⁹⁹ Letter from D.M. Koeninger to Governor Price Daniel. June 15, 1961. Box 315, folder “Garza [red label].” GPD.

²⁰⁰ Letter from Ella Rene to Governor Price Daniel. June 13, 1961. Box 317, folder, “Tarrant [red label].” GPD.

clearly did not connect high levels of public spending to government corruption. Wasteful public spending was referenced by 8.7 percent of all letters from New York, compared to 10.3 percent of letters from Georgia and 2.5 percent of letters from Texas (although the differences between New York and Georgia were not statistically significant) (see Appendix Table 1). Similarly, 5.8 percent of all letters from New York criticized spending on undeserving groups, compared to 5.3 percent of letters from Georgia and two percent of letters from Texas (again, differences between New York and Georgia were not statistically significant). This same pattern appears with regard to calls for cuts in public spending, which are highest in New York (9.7 percent) and Georgia (8.2 percent) and lower in Texas (5 percent). However, unlike in Georgia, where concerns about public spending appear alongside relatively high levels of concern about government corruption, New Yorkers did not seem to connect their discomfort with the growing cost of government to criticisms of government trustworthiness. References to government corruption were almost nonexistent in letters from New Yorkers, appearing in only one percent of the total set of letters.

Instead of complaining about corruption, New Yorkers identified extravagant spending as their major concern with state government. And far from believing that the state should drastically disinvest from public programs, most of these correspondents protested that they were proud of New York's many amenities — but they felt the governor was going too far in his zeal for expanding state services. Many letter writers who made this point also argued that Governor Nelson Rockefeller's vast personal wealth seemed to be blinding him to the fiscal plight of ordinary citizens. In her letter to the editor of the *Albany Knickerbocker*, Elaine Sexton Houck wrote: "I know it is difficult for a millionaire to understand the continuing financial problems of low and middle-income families, but the governor should try." Additional spending was simply not necessary, she suggested, given that New York already had many amenities and services. "There has to be a stopping point somewhere. New York is a great state. A few less superhighways are not going to diminish its grandeur."²⁰¹ Another letter writer, who signed his or her missive simply as "FED UP," grumbled that "Just because Mr. Rockefeller is a millionaire and doesn't have to budget his personal money, he should not think that all of us are in a position to keep on paying higher taxes forever and keep still about it."²⁰² Rockefeller's aims for the state were too "luxurious" argued another correspondent.²⁰³ "I and many other people like things improved in NY State,"

²⁰¹ "Rocky's Budget Plan: Who Is He Kidding?" Letter to the editor. *Albany Knickerbocker News*. February 10, 1965, p. 14A.

²⁰² "How High the Taxes?" Letter to the editor. *Albany Knickerbocker News*. January 9, 1965, p. 4A.

²⁰³ "Broken Promises from Rocky." Letter to the editor. *Albany Knickerbocker News*. February 22, 1965, p. 8A.

protested Frank De Giacomo in a letter to Governor Rockefeller. “I do believe in spending. But the way I read the papers this spending is going a bit overboard.”²⁰⁴

Like letter writers from other states, New Yorkers frequently identified welfare recipients as an undeserving group that benefited from public spending. “Why able-bodied men by the thousands should be allowed to live off the rest of us like parasites is beyond my understanding,” wrote Don Hunt of Wolcott, New York, a small town on the shores of Lake Ontario. “I want to spend my money on my own family rather than on some shiftless bum in the city who is too lazy to work.”²⁰⁵ Other letter writers recommended cutting spending and limiting “welfare and other handouts” to those who were unable to work²⁰⁶ or who had lived in New York for at least a year.²⁰⁷

However, New Yorkers also repeatedly singled out public employees as a group that disproportionately — and unfairly — benefited from extravagant government spending. “Mr. Rockefeller thinks nothing of making jobs so he can hire more state employees and at fabulous salaries,” fumed Mrs. F.P. Brandi in her letter to the *Albany Knickerbocker News*. “Most of his aides are making as much or more in one day as the average working man is making in a week.”²⁰⁸ Another correspondent, who claimed to have quit a state government job because there was not enough work to keep busy, asked sarcastically, “Is Rocky going to impose a 5 per cent state sales tax to pay for the underworked state workers’ pensions, hospitalization, early retirement, long vacations, etc.?” In short, although most New York letter writers were quick to defend their state’s priorities and investments and seemed to perceive government as well-run and honest, they still grumbled that state government’s profligacy taxed ordinary citizens’ pocketbooks while enriching public employees.

Unlike letter writers from Georgia and Texas, who focused on the moral calculus of the sales tax — namely, whether it would prevent groups from escaping taxation and force them to contribute their fair share to the costs of government — New Yorkers evaluated the promise and peril of the sales tax through a distinctively economic lens. New Yorkers were significantly more likely than letter writers in both Texas and Georgia to argue that the sales tax would hurt the state’s economy, often because it would negatively impact business. A large share of anti-sales tax letters from New York (36.2 percent) made this claim, compared to only 3.1 percent of anti-sales tax letters

²⁰⁴ Letter from Frank De Giacomo to Governor Nelson Rockefeller. April 7, 1965. Microfilm reel #35. NAR.

²⁰⁵ Letter from Don Hunt to Governor Nelson Rockefeller. January 11, 1965. Microfilm reel #35. NAR.

²⁰⁶ Letter from Albert J. Minor to Governor Nelson Rockefeller. March 25, 1965. Microfilm reel #35. NAR.

²⁰⁷ Letter from Sue Harrison to Governor Nelson Rockefeller. November 18, 1964. Microfilm reel #35, NAR.

²⁰⁸ “Broken Promises from Rocky.” Letter to the editor. *Albany Knickerbocker News*. February 22, 1965, p. 8A.

from Georgia and 3.6 percent of these letters from Texas (see Appendix Table 3).²⁰⁹ New York letter writers also often defended the sales tax by saying that it would *not* harm the state's economy. Just over twelve percent of pro-sales tax letters from New York included this argument, compared to only 4.1 percent of letters from Texas (see Appendix Table 2). Although this difference was not statistically significant, New Yorkers were significantly more likely to make this claim than Georgians, where no pro-sales tax letters defended the sales tax on economic grounds.

Companies of course wrote to Governor Rockefeller to protest the adoption of the sales tax, but mainly in service of requesting a "manufacturing exemption" for goods that were inputs in the manufacturing process. Such letters frequently threatened relocation if the state did not include a manufacturing exemption in the sales tax law, as when the executive vice-president of the Rochester-based company Sargent & Greenleaf (which manufactured safes and locks) warned the governor: "As employers we find it necessary to consider other measures such as relocation in states having a more favorable business climate and those giving greater consideration to the needs of industry."²¹⁰ Local chambers of commerce and retail merchants were also vocal about the impact of the sales tax on the state's business climate. David Yunich, who was president of Macy's New York and led the Metropolitan New York Retail Merchants Association, warned of dire consequences if the state adopted a sales tax (increasing the local sales tax rate in New York City, which already levied a local sales tax, to five percent): "The 5 percent sales tax may shatter for all times the economic and social foundations of New York City by creating an impossible competitive disadvantage here which may never be overcome as a result of the irresponsible action on the part of the legislature. Not only will it rupture the city's business but it also must result in unemployment, increased spending in the welfare rolls and many other hardships for the people of New York City. Free competition in business will be seriously impaired. There will be a growing exodus of residents, customers, businesses and jobs out of the city and out of the state."²¹¹

However, even if these protests from large companies and organized interests groups are set aside, ordinary citizens in New York also expressed concern over the

²⁰⁹ The statistical significance of this difference was robust to excluding letter writers affiliated with interest-group organizations or companies, who may have had a particular concern with the sales tax's impact on business.

²¹⁰ Letter from Arthur Abelson to Governor Nelson Rockefeller. March 31, 1965. Microfilm reel #35. NAR. Such warnings were not simply lobbying tactics; Sargent & Greenleaf relocated to Nicholasville, Kentucky, in the early 1970s. "Company History." Available from: <http://www.sargentandgreenleaf.com/companyHistory.php>. Last accessed April 3, 2015.

²¹¹ Telegram from David L. Yunich to Governor Nelson Rockefeller. April 14, 1965. Microfilm reel #35. NAR.

economic impact of the sales tax at a higher rate than citizens from Georgia and Texas. Several letter writers connected their concern over the disproportionate impact the sales tax would have on low-income households with economic harm. “This sort of blanket tax is most certainly inimical to the financial soundness of the ‘great tax base’ (the lower-middle and middle-middle economic groups) and it will surely result in reduced buying-power and its concomitant [sic] economic ills,” wrote William Kail of Northport, a town on the north shore of Long Island.²¹² “At the time when the city of Albany and others are spending money to try to attract business to New York State, our governor who promised almost everything for progress now proposes a tax all out of proportion to anything good business ever heard of,” complained Stanley Shepard in a letter to the editor of the *Albany Knickerbocker News*.²¹³

One of the key points of praise that pro-sales tax letter writers offered in New York also focused on economic concerns; pro-sales tax advocates in New York were more likely than letter writers from either Georgia or Texas to praise the sales tax for providing property tax relief (see Appendix Table 2). Nearly nineteen percent of pro-sales tax letters from New York identified the sales tax as preventing increases in the property tax, compared to only 2.6 percent of pro-tax letters from Georgia and a total lack of mention of this issue in pro-sales tax letters from Texas (these differences were both statistically significant). Several such letters in New York were personal notes from correspondents who served in local government and were well aware of the boost that state aid could provide to the local tax base. “Most school districts in the area are passing the benefit derived from increased local sales tax revenues on to the taxpayers in the form of a lower real estate tax. Elimination of the sales tax would require real estate taxes to be boosted,” wrote J.D. Fewster, president of the board of education for the Brighton school district in Rochester.²¹⁴ A resident of Mecklenburg, New York, a small town outside Ithaca, also wrote the governor to acknowledge the tradeoff between increased property taxes and the adoption of the sales tax: “The prospect of increased Property Taxes and/or Income Taxes is an unhappy one. Certainly the Sales Tax appears to me to be a better and more equitable means of ‘getting the most feathers.’”²¹⁵

²¹² Letter from William P. Kail to Governor Nelson Rockefeller. January 5, 1965. Microfilm reel #35. NAR.

²¹³ “Additional Taxes Scare Business Away.” Letter to the editor. *Albany Knickerbocker News*. January 16, 1965, p. 4A.

²¹⁴ Letter from J.D. Fewster to Governor Nelson Rockefeller. October 28, 1965. Microfilm reel #35. NAR.

²¹⁵ Letter from R. Dodge to Governor Rockefeller. September 1, 1965. Microfilm reel #35. NAR.

Differences Between Elite and Grassroots Claims about the Sales Tax

Ultimately, though letter writers in all three states used similar language to articulate how the sales tax would help the state secure its commitments or how it would pose too much of a burden to taxpayers, correspondents in Texas, New York, and Georgia actually had very different understandings of what constituted fair burdens or legitimate state commitments. But how closely did the distinctive ways that ordinary citizens talked about taxes map onto the state-specific narratives deployed by political elites? In this final section, I argue that the pro-sales tax claims of ordinary citizens differed in important ways from the pro-sales tax claims of political elites. Certain aspects of citizen language about the sales tax clearly picked up on elite arguments, such as when New Yorkers defended the sales tax against the claim that it would hurt the state's business climate or Texans argued that all residents should bear a portion of the costs of state government. But other pro-sales tax claims made by letter writers were more distinct.

First, by singling out racial minorities as groups that failed to pay their fair share of taxes under the current regime, letter writers from Texas and Georgia were often more explicit than political elites in these states about the racial dimensions of taxation. In Texas, newspaper coverage of legislative debate and the text of prepared testimony preserves little evidence that pro-tax groups prioritized claims about how the sales tax would force migrant farmworkers or other stigmatized groups to pay taxes. In a rare exception, state senator Henry Gonzalez railed during a (failed) filibuster of the sales tax bill that many low- and middle-income Texans supported the sales tax only because it "gives them an opportunity to express hatred and prejudice. [. . .] Some say this is the only way you can tax Negroes and Mexicans. [. . .] They argue for this tax even though it will affect them adversely."²¹⁶ When business interests talked about sharing the cost of taxes more equally, they had in mind adopting the first major tax on all Texas consumers and reducing the burden on the oil and gas industry, but many ordinary Texans saw particular groups of consumers — those who "escaped" property taxation — as the real targets of the sales tax.

The disjuncture between grassroots and elite discourses on race is particularly startling in Georgia, where political elites talked openly about how the sales tax would secure white supremacy. Yet ordinary citizens do not seem to have connected the adoption of the sales tax to a legal strategy aimed at defending segregated education; instead, they focused more narrowly on how poor, black households paid only a small

²¹⁶ Jimmy Banks. 1961. "Admitting It's a Lost Cause, Gonzalez Opens Filibuster." *Dallas Morning News*. August 3, p. 8.

share of total tax costs under the current regime of taxation.²¹⁷ This lack of discussion about the preservation of segregated education is also interesting given the relatively high rates at which Georgia constituents specifically linked the sales tax to investments in public education. Yet this disjuncture is likely a function of the fact that ordinary Georgians simply assumed the benefits of additional investments in public education would accrue to white schools. Although pro-sales tax correspondents in Georgia mentioned how the sales tax would help guarantee modernization and progress for the state at relatively high rates compared to correspondents in other states, there is little evidence that these letter writers imagined investments would disproportionately benefit poor, black households. Claims that the sales tax would fund modern progress appeared in 15.8 percent of pro-sales tax letters in Georgia, which was a statistically significant difference from the 3.2 percent of letters that mentioned this idea in Texas (although not statistically distinguishable from the 12.5 percent of New York letters making this claim) (see Appendix Table 2).

Georgians making this argument lamented Georgia's status as "a backward state" that was "at the bottom of the list" in terms of educational facilities, with one letter writer even expressing the opinion that it was time to "rescue the Empire State of the South from the scrap heap."²¹⁸ The sales tax, these letter writers argued, could help Georgia move from its embarrassing position at the bottom of national rankings for investments in public services. B.H. Roberts of Portal, a small community in eastern Georgia, wrote in to the Constitution to express his willingness to pay taxes if it would move the state forward: "I think the common people want progress. If we will think how much better we are doing than our ancestors did, we would try to pay more taxes and make Georgia a better state. [. . .] I would like my neighbors children to get the things I missed and I am willing to help pay for them by paying the necessary taxes. Let's have a sales tax and everybody pay his fair way."²¹⁹ Whether Mr. Portal truly had all his neighbors in mind when he offered up his tax dollars is unclear, but seems unlikely given that education reform campaigns did not explicitly discuss disparities between black and white schools. For instance, the campaign to adopt the 1949 referendum in Georgia that would have increased educational funding made scant

²¹⁷ The link between the sales tax and the preservation of segregated education may have been more explicit for average taxpayers in South Carolina, where sales-tax revenues were statutorily dedicated to public education spending and a South Carolina school district was named in one of the legal suits that became part of the *Brown v. Board of Education* decision. Unfortunately, this analysis does not contain letters from ordinary citizens in South Carolina.

²¹⁸ "Homestead Exemption." Letter to the editor. *Atlanta Constitution*. May 31, 1949, p. 11; "Don't Let Them Down." Letter to the editor. *Atlanta Constitution*. January 5, 1949, p. 8; "Thompson Supporter." Letter to the editor. *Atlanta Constitution*. May 8, 1950, p. 8.

²¹⁹ "Unselfish Viewpoint." Letter to the editor. *Atlanta Constitution*. October 18, 1950, p. 12.

mention of disparities between white and black schools and focused instead on how investments would benefit white students (O'Brien 1999: 62).

Interestingly, while New York letter writers did applaud the investments that the sales tax would fund in their state, they seemed to make less of this selling point than did Governor Rockefeller. Some correspondents did mention their pride in New York's exemplary status as a state with ample amenities and public infrastructure. "I believe that new york state [sic] is the greatest state in the union and will continue to be so!" wrote Raymond Lowell. "When you consider the many improvements in road building, education, etc...It is a small price for the average consumer to pay and lets face it...the money must come from some source!"²²⁰ Another correspondent confessed that when traveling across the country she found other states "shabby and seedy looking" in comparison to New York. "If imposing the new state sales tax along with other taxes of the past has helped to make New York State that much more prosperous, then by all means I am in favor of them."²²¹ Yet, when paired with other letters that criticized Rockefeller's wasteful and unnecessary investments in a state that already outstripped its nearest peers, correspondence suggests New Yorkers wrestled with a profound tension over how to finance these progressive investments. The preoccupation with economic concerns in New York also reflects this ambivalence. Rockefeller discussed at length during the push for higher revenues how the sales tax was a better choice for the state's business climate than an increase in already-high income taxes, and this concern also shines through in the letters of ordinary citizens.

Conclusion

Just as political elites vigorously debated the pros and cons of adopting new taxes during the postwar period, ordinary citizens also marshaled arguments in favor of and against these proposals. By assembling and analyzing an original dataset of constituent letters written to governors and leading newspapers in Georgia, New York, and Texas, I demonstrate that substantial numbers of ordinary citizens supported these taxes — although not always for the same reasons that were being promoted by political elites. Furthermore, while letter writers from different states often invoked similar arguments to defend or criticized the sales tax, their correspondence also reveals that they continued to think in distinctive ways about the commitments that sales taxes guaranteed and the costs they imposed.

Letters from Texas and Georgia indicated a distrust of state government, which was often seen as corrupt and captured by interest groups, while New Yorkers exhibited

²²⁰ Letter from Raymond H. Lowell to Governor Nelson Rockefeller. August 13, 1965. Microfilm reel #35, NAR.

²²¹ Letter from Mr. and Mrs. Clifford W. Scharf to Governor Nelson Rockefeller. October 27, 1965. Microfilm reel #35. NAR.

no such concern. Instead, New Yorkers worried that state government had become too ambitious in its pursuit of modern investments, leading to unprecedented levels of public spending and government employment. These distinctive worries were also reflected in the arguments that pro-sales tax voices made in defense of new revenues. In Texas and Georgia, letter writers' logic suggested that they were willing to accept higher taxes as long as all residents — including racial minorities — were forced to bear a share of the costs of government. And in New York, constituents litigated the sales tax on the basis of its economic impact, indicating they would support the tax as long as it did not negatively affect the state's business climate.

This analysis strengthens my claim that new taxes were understood differently across different states during critical postwar debates over the transformation of state-level revenue systems. However, it also speaks to the importance of investigating how ordinary citizens might think about taxes in ways that differ from the narratives deployed by political elites. Contrary to some expectations, both types of political actors found reason to advocate for the sales tax. Yet the pro-tax arguments of these groups only partially overlapped in each state, suggesting that ordinary citizens embraced these taxes on terms that were not always explicitly stated in reformers' campaigns. In short, understanding the terms of the social contract of taxation that was negotiated in each state as major new taxes were added to the revenue structure requires analyzing not just how political elites promoted these taxes but how they were taken up and justified by taxpayers as well.

Conclusion

State tax choices — and the United States’ distinctive reliance on state-level financing for social expenditures — continue to have major implications for the size and shape of the American welfare state in the twenty-first century. On the same day that President Obama signed the 2010 Affordable Care Act, the Florida attorney general (joined by twelve other states) sued the federal government over the constitutionality of the health care law’s individual mandate and expansion of Medicaid. Florida Attorney General Bill McCollum argued that the Medicaid expansion in particular represented “an unprecedented encroachment on the sovereignty of the states” by requiring states to expand eligibility standards for Medicaid to include low-income adults. If states failed to revise their eligibility standards to include these groups, they would forfeit all federal funding for their entire Medicaid program — not just the portion aimed at increasing coverage for low-income adults (Kaiser Family Foundation 2012: 2-3). And although the law provided full federal funding for these expanded benefits through 2016, states would be responsible for ten percent of the new costs by 2020. The states’ complaint filed with the U.S. district court explained that the law effectively “requires Florida to spend billions of additional dollars” to implement the new standards and represented an “onerous encroachment [. . .] at a time when Florida faces having to make severe budget cuts to offset shortfalls in its already-strained budget, which the state constitution requires to be balanced each fiscal year (unlike the federal budget), and at a time when Florida’s Medicaid program already consumes more than a quarter of the State’s financial outlays” (5).²²²

In its 2012 decision on the constitutionality of the Affordable Care Act, the U.S. Supreme Court agreed that the health care law “dramatically increases state obligations under Medicaid” (45).²²³ The court noted that Medicaid spending “accounts for over 20 percent of the average State’s total budget, with federal funds covering 50 to 83 percent of those costs” (51). The “threatened loss of over 10 percent of a State’s overall budget [. . .] is economic dragooning that leaves the States with no real option but to acquiesce in the Medicaid expansion” (52). As a consequence, the Supreme Court invalidated the portion of the health care law that made all federal Medicaid funds contingent on the eligibility expansion for low-income adults, allowing states to choose whether or not they would partner with the federal government to provide health coverage through Medicaid for these populations. As of April 2015, twenty-one states had chosen not to expand their Medicaid programs; were these states to participate in the expanded program, the Kaiser Family Foundation estimates that total Medicaid enrollment would

²²² Fla. ex rel. McCollum v. Sebelius (N.D. Fla.)

²²³ NFIB v. Sebelius, 567 U.S. ____ (2012), 132 S.Ct 2566

increase by 40 percent and give 4.3 million more people access to health insurance (Buettgens, Holohan, and Recht 2015).

The 2010 health care law's requirement that states eventually bear part of the costs of insuring low-income adults — and the sharp resistance from some states to participating in these new costs — emphasizes the high stakes of linking the national social safety net to state-level tax systems. When state governments finance a substantial share of social expenditures, the generosity and uniformity of these social policies become closely tied to the uneven landscape of state fiscal capacity. For instance, many of the states who have refused to participate in the expanded Medicaid program are located in the South and have relatively large populations of poor, uninsured adults, but also have less wealthy tax bases from which to generate necessary revenue. More fundamentally, even if the size or wealth of a state's tax base is not at issue, the politics of taxation in many states makes raising additional funds to support social expenditures an unlikely route.

In this dissertation, I have argued that understanding how exceptional aspects of the American welfare state developed and continue to shape contemporary social policy debates requires looking to state governments and, in particular, to political contestation over new taxes that took place at a critical moment in the development of state revenue systems. Between the late 1940s and early 1970s, when a majority of U.S. states added the individual income tax or general sales tax to their tax structures, pro-tax advocates used a diverse set of arguments to justify these taxes to constituents. In articulating the specific threats that new taxes could help defeat, the benefits they would secure, and how the costs and benefits of these taxes would be distributed among different groups of taxpayers, these justifications helped codify a set of expectations about what it meant to pay taxes in these states and what taxpayers could expect from government.

In some states (such as New York), pro-tax coalitions argued for new taxes on the grounds that additional revenue would help consolidate the promises of the New Deal state at the subnational level by funding social investments and allowing the most ambitious state governments to claim greater shares of federal grant dollars. Yet in other states, taxes held a much different kind of promise. Pro-tax coalitions in the Deep South advocating for higher school funding during segregation saw these taxes as a way to secure white supremacy. Higher costs to taxpayers — and even disproportionate investment in black schools — were acceptable as long as stigmatized groups of “nontaxpayers” were forced to contribute their fair share under the new tax regime and the prevailing racial order could be preserved. In other contexts, such as debates over the sales tax in Texas, new taxes were praised as a way of treating all taxpayers (businesses, consumers, migrant farmworkers, and homeowners) “equally” while strengthening state government in order to restore balance to the federal system.

These diverse social compacts of taxation flourished across the American states during the postwar period in large part because the United States (unlike most wealthy

federal countries) failed to develop a meaningful system for equalizing state tax resources or providing large-scale fiscal aid to state governments. Instead, by largely leaving states to their own devices when it comes to generating revenue and by requiring states to contribute matching funds to access many federal grant programs, the United States place unique demands on subnational tax systems to fund social expenditures. Liberal state builders during the postwar period remained persistently opposed to no-strings-attached fiscal aid or federal tax sharing, which they saw as opening the door to an even more devolved and weakened welfare state. Liberals were particularly concerned that strengthening state fiscal capacity would serve as a cover for conservative business interests to shift control over social policy to the halls of state capitols, where they had greater sway over policy decisions. Although Keynesian economists, first in the National Resources Planning Board and then in the Johnson and Nixon administrations, managed to re-characterize state fiscal weaknesses as a major challenge to postwar economic growth, their progressive allies remained deeply skeptical that unrestricted budget support for state and local governments was a prudent strategy for increasing the overall level of social spending in the United States.

Ultimately, my analysis of tax debates in New York, Texas, South Carolina, and Georgia speaks to a much broader set of theoretical concerns related to analyzing the relationship between taxation and the welfare state. First, I argue that my research underlines the importance of studying state governments and state-level politics in efforts to understand American social policy exceptionalism. Welfare state scholars have long acknowledged the institutional effects of federated political systems and have more recently become attuned to the necessities of studying “varieties of federalism,” given that these political arrangements take diverse forms and produce correspondingly varied consequences for welfare state programs and outcomes (Obinger et al. 2005). Yet relatively few scholars studying the American welfare state have focused specifically on how the politics of financing and designing social policy programs are deeply structured by the priorities, institutions, partisan divides, and social relationships of state governments and policymakers. This analytical gap is likely exacerbated by the difficulty of gathering empirical evidence on state policy debates, which are less visible in existing secondary literature and may not be well documented in the archival material preserved in state government archives. However, given the profound consequences of state debates — particularly over taxation — for the politics of social policy in the United States, these venues deserve increased and sustained attention from scholars of the American welfare state.

Second, and relatedly, my analysis points to the importance of expanding theories of subnational politics beyond a focus on Southern exceptionalism in order to understand how sociopolitical factors are linked to sundry fiscal bargains across the United States. My research builds on existing work demonstrating that tax politics in southern states are deeply intertwined with conflict over race, class, and democratic

institutions. I make new contributions to this literature by tracing how these linkages were reconstituted during a critical moment of state tax reform, namely by positioning new taxes as a way to force racial minorities to pay their fair share of the costs of state government and simultaneously conditioning redistribution on the preservation of white supremacy. Yet my analysis also suggests that these factors shaped tax debates in all states, not just those in the South, and that these linkages deserve additional attention from scholars seeking to understand how popular attitudes about taxes are constructed during key moments of reform. In Texas, for instance, political elites largely avoided racial stereotypes in advocating for the sales tax, yet constituents who wrote in to the governor often cited their desire to see migrant, Mexican farmworkers contribute to the costs of government as a key driver of their support for the sales tax. And in New York, while racial minorities were rarely mentioned as undeserving groups benefiting from public spending, letter writers exhibited a growing discontent with state-level welfare programs. Additional research should examine the process by which this discontent may have articulated with racial stigma as the state approached a fiscal crisis in the late 1960s and early 1970s.

Finally, my analysis breaks new ground in a developing fiscal sociology literature on how the form of taxation shapes popular support for revenue generation and the welfare state by demonstrating that even very similar types of taxes can take on dramatically different meanings, depending on the social context of tax debates. Tax scholars have increasingly argued that consumption taxes are less visible than progressive taxes on wealth and income, and that differences in visibility may be a critical factor in the development of political resistance to taxation and redistributive spending. My analysis suggests that the “visibility” of a tax is more a function of the way that political elites discuss revenue generation than it is directly linked to the design of a tax policy. Of course, my analysis focuses on a highly visible moment in the life of a tax: the effort to adopt it for the first time. Even so, I argue that claims about the political effects of how a tax is structured must always be connected to an analysis of the sociopolitical context in which this tax is debated. The general sales tax, long regarded as a more politically palatable form of revenue generation than lump-sum taxes on income or property, can secure a range of fiscal bargains with taxpayers, and the content of those compacts depends less on how the tax operates than on how it is justified.

The unique structure of public finance in the United States means that state governments will remain acutely engaged in ongoing contestation over how to fund social spending. As illustrated by recent debates over expansions to Medicaid, when states are granted control over social programs in order to generate political support for this expansion, state budgets and tax bases become deeply implicated in the politics of welfare spending. Interest in instituting a national consumption tax in the United States emerges episodically from commentators on the left and the right, although the

proposal has rarely gained policy traction in the late twentieth century. And although recent discussions of such a step include proposals to funnel large shares of the resulting revenue directly to state governments (Campbell 2011; Prasad 2012b), liberal policymakers remain wary of revenue sharing plans that turn additional control over social programs to states. This skepticism was warranted during the late 1960s and early 1970s, given conservative interest in substituting shared revenues for federal spending on categorical grant programs, and it is warranted today as well. The most recent budget proposal negotiated by the Republican caucus in Congress uses block grants to state governments as a vehicle for accomplishing deep cuts to many social programs such as food stamps and Medicaid that are now administered at the federal level.

Understanding these contemporary debates, as well as the origins of the unique contours of the American welfare state, requires looking not only to the structure of public finance in the United States but to its development at the state level during critical moments of reform. Questions of what level of government should take on responsibilities for social spending, as well as how the costs of financing those responsibilities should be distributed across governments and tax bases, are central to ongoing efforts to make sense of how the American welfare state is structured and how it was transformed during the past century.

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Appendix

Codebook for Letter Coding

1. **Fair:** Letter writer uses word "fair" or "just" or says a tax is "most fair" or "more fair" than other options. (Letter writer may not elaborate further on what makes the tax "fair" in their view.)
2. **Meet commitments:** Tax revenue will allow state to fund existing programs and commitments and/or to keep up with costs associated with a growing population. Letter writer may mention that tax will generate "necessary" or "needed" amount of money, or say that "if taxes must be raised," a certain type of tax is preferred. Should only be used when letter writer goes beyond discussing public education to mention other areas of revenue need.
3. **Fund public education:** Tax revenue will allow state to fund public education, particularly investments in improving public education (teacher salaries, school buildings/equipment).
4. **Forces certain groups to pay their share:** Higher taxes or a particular type of tax considered desirable because tax will reach groups who are seen as escaping taxation or require certain types of taxpayers to contribute their "fair share" to the cost of government.
5. **Treats everyone equally:** Tax is considered desirable because it treats everyone equally. Letter writer uses the word "equitable" or says that the tax "treats everyone the same." Letter writer may also say that tax allows "everyone to contribute to the cost of government" or mentions that "everyone should have a part" in paying a tax. When discussing the sales tax, letter writer may mention that everyone pays when they buy something.
6. **Generates revenue from group that can afford it best:** Tax is considered desirable because it falls on group best-equipped to pay it. Includes arguments about how the income tax is preferred because it operates on an "ability to pay" basis. May also include arguments about taxing corporations because they can afford to pay higher taxes. May include arguments that people who consume more will pay higher sales taxes.
7. **Visible and/or transparent:** Tax considered desirable because it is visible or it is clear that a tax is being paid. May include arguments about how voters will pay more

attention to government if they are aware they are paying a tax.

8. **Protect states' rights:** Tax revenue will help state fend off federal encroachment or intervention, including by meeting certain commitments or responsibilities at the state level.
9. **Protect segregation:** Tax or tax revenue will protect or preserve segregation, most likely by equalizing facilities in order to fulfill "separate but equal" constitutional responsibilities. Letter writer may mention that taxes are needed in relation to court cases.
10. **Modern progress:** Taxes are necessary to support civilized societies, will allow state to make investments that bring state into modern era or embrace progress. Emphasis is on going beyond current commitments to improve state programs. May use the words "modern" or "progress." May also compare the state to other states in the nation.
11. **Economic development:** Tax revenue will support economic development or growth, including by improving quality of workforce or public infrastructure. Will preserve a good business climate. Should include claims that higher taxes or a particular tax will not harm economic development, even if letter writer does not argue tax will improve economic development.
12. **Moral work:** Higher taxes or a specific type of tax will encourage or discourage certain types of behavior (drinking, smoking, frivolous spending on luxury items).
13. **Property tax relief:** Higher state tax revenue will relieve burden on local governments (cities, counties, school districts) from funding all improvements with property taxes.
14. **Prevents or controls inflation:** Tax considered desirable because it will help control inflation or rising prices. Also includes claims that a tax will not increase inflation, even if letter writer does not argue tax will actually control inflation.
15. **Attracts desirable federal dollars or investment:** State tax or spending is desirable because it will stimulate federal investment.
16. **Unfair:** Tax undesirable because it is seen as unfair. Letter writer uses word "unfair" or "least fair" to refer to a specific tax. This code may often be used in conjunction

with another code (“burden falls unequally on one group,” “too much of a burden”).

17. **Too much of a burden:** Tax is considered undesirable because it imposes too much of a burden on all taxpayers or on one type of taxpayer, causing them harm. Includes arguments about how a tax might drive a small firm out of business or push an elderly household, working-class household, or those who survive on a fixed income into poverty. Also includes arguments that a tax would fall on “necessities” or “necessary items.” Also includes arguments that a state income tax would come on top of the federal income tax.
18. **Burden not fairly distributed:** Tax is considered undesirable because it taxes one group of taxpayers more than another group of taxpayers (or non-taxpayers). Letter writer may refer to a tax as “discriminatory” or note that only a portion of the population would pay it. Letters criticizing a tax for falling disproportionately on low-income taxpayers or that talk about how a tax will hurt the poor or working class should be coded with this code.
19. **Threatens economic development:** Higher taxes will hinder economic growth or economic development. Letter writer may mention how tax will harm the business climate, drive business or industry out of the state, or hinder industry ability to make new investments.
20. **Won’t generate necessary revenue:** Tax is opposed because it will not raise the needed amount of revenue to solve state budget problems or prevent future deficits.
21. **Hidden or not transparent:** Tax is not visible or clear to taxpayers or the public. May include arguments about how taxpayers are not aware they are paying a contribution to government expenditures. May also include arguments that a tax is desirable because it hides the cost of government and allows uncontested spending.
22. **Threaten states’ rights:** Higher state or federal taxes threaten states' rights by making federal government encroachment more likely or by weakening states' ability to fend off federal encroachment. Includes arguments about growth of government power, including power of centralized government.
23. **Tax increase is undemocratic:** Tax opposed because voters have rejected it or are against it. Letter writer may mention that lawmakers are going against the wishes of the majority or “forcing” a tax on people.

24. **Loopholes or exemptions are unfair:** Tax criticized because it includes loopholes or exemptions that result in an unfair distribution of the tax burden or allow certain groups to escape taxation.
25. **Corrupt or untrustworthy government, politicians, or leaders:** Letter writer indicates that government or lawmakers cannot be trusted, are serving their own ends, or have been discredited. May also use word “selfish” to refer to government officials. May describe a specific example of corruption.
26. **Inflation:** Letter writer refers to inflation, rising costs, or increases in the cost of living. Coded with a specific tax only if the letter writer attributes that tax to causing inflation.
27. **Communism/socialism:** Letter writer refers to Communism, Karl Marx, “pinkos,” “Reds,” Soviet Union, Russia, or socialism.
28. **Spending on undeserving groups:** Reference to spending on undeserving groups (lazy, unemployed, racial minorities, public employees) or programs that benefit these groups. May occur without reference to a specific tax.
29. **Certain groups escaping taxation:** Expresses the sentiment that some people or groups escape paying taxation, perhaps because they are not subject to the income or property tax. Letter writer may suggest that some groups don’t contribute equally to the cost of government. May often be used in conjunction with “Forces certain groups to pay their share” or “Spending on undeserving groups.”
30. **Efficiency or lower spending:** State or federal government spending is too high and should be cut as an alternative to raising more revenue. Letter writer may mention making government more “efficient” or “economical.”
31. **Spending wasteful:** Letter writer specifically uses the words “wasteful” or “waste of money” or expresses a similar sentiment in reference to state spending. May be used in conjunction with “Efficiency or lower spending” and/or “Spending on undeserving groups.”
32. **GENERAL SALES TAX:** Most often referred to as “sales tax,” but also as HB 334 (TX). Applies even if letter writer endorses a sales tax with limited exemptions, such as for food/groceries, medicine, or “items already taxed.”

33. SELECTIVE SALES TAX: Sales tax that only applies to certain items; usually referred to as "selective sales tax" or "excise taxes."
34. INCOME/PAYROLL TAX: Individual income tax, sometimes described as a "tax on income" or "tax on wages."
35. ALCOHOL TAX: Taxes on alcohol, liquor, beer, whiskey, wine, or "drink."
36. TOBACCO TAX: Taxes on cigarettes, tobacco, cigars, chewing tobacco, or smoking.
37. GAS PIPELINE/SEVERANCE TAX: Sometimes referred to as a tax on natural gas, gas pipelines, transit of gas out of the state, oil and gas companies.
38. BUSINESS/CORPORATIONS TAX: Any tax that is described as falling on "business," "industry," "corporations," or "business owners."
39. LUXURY TAX: Taxes on "luxury items" or "nonessential items"
40. PROPERTY TAX: Taxes on property, homes, homeowners; also "school taxes" or "county taxes"

Appendix Table 1: Mentions of Government-Related Sentiments as a Share of All Letters

	NY	GA	TX	P-Value	Level of Significance
Spending on undeserving groups					
NY/GA	0.058	0.053	--	0.784	
NY/TX	0.058	--	0.019	0.020	**
GA/TX		0.053	0.019	0.006	***
Wasteful spending					
NY/GA	0.087	0.103	--	0.537	
NY/TX	0.087	--	0.025	0.002	***
GA/TX		0.103	0.025	0.000	***
Cut spending					
NY/GA	0.097	0.082	--	0.541	
NY/TX	0.097	--	0.050	0.039	**
GA/TX	--	0.082	0.050	0.062	*
Corrupt or untrustworthy government					
NY/GA	0.010	0.061	--	0.000	***
NY/TX	0.010	--	0.068	0.000	***
GA/TX	--	0.061	0.068	0.637	
Groups escaping taxation					
NY/GA	0.015	0.100	--	0.000	***

NY/TX	0.015	--	0.041	0.021	**
GA/TX	--	0.100	0.041	0.001	***
References to communism or socialism					
NY/GA	0.015	0.053		0.007	***
NY/TX	0.015		0.016	0.883	
GA/TX		0.053	0.016	0.004	***

Appendix Table 2: Pro-Sales Tax Claims

	NY	GA	TX	P-Value	Level of Significance
Letters Praising the Sales Tax (as a share of all sales-tax letters)					
NY/GA	0.254	0.543	--	0.000	***
NY/TX	0.254	--	0.430	0.000	***
GA/TX	--	0.543	0.430	0.089	*
Helps state meet its commitments					
NY/GA	0.500	0.289	--	0.069	*
NY/TX	0.500	--	0.510	0.915	
GA/TX	--	0.289	0.510	0.009	***
Combination: helps state meet its commitments combined with helps fund public education					
NY/GA	0.594	0.474	--	0.319	
NY/TX	0.594	--	0.543	0.595	
GA/TX	--	0.474	0.543	0.446	
Treats everyone equally					
NY/GA	0.188	0.316	--	0.211	
NY/TX	0.188	--	0.392	0.010	**
GA/TX	--	0.316	0.392	0.368	
Forces certain groups to pay their fair share					

	NY	GA	TX	P-Value	Level of Significance
NY/GA	0.125	0.211	--	0.334	
NY/TX	0.125	--	0.307	0.010	**
GA/TX	--	0.211	0.307	0.210	
Fair					
NY/GA	0.156	0.263	--	0.268	
NY/TX	0.156	--	0.268	0.126	
GA/TX	--	0.263	0.268	0.947	
Funds public education					
NY/GA	0.188	0.237	--	0.614	
NY/TX	0.188	--	0.080	0.136	
GA/TX	--	0.237	0.080	0.030	**
Generates revenue from group that can best afford it					
NY/GA	0.000	0.026	--	0.313	
NY/TX	0.000	--	0.024	0.000	***
GA/TX	--	0.026	0.024	0.053	*
Funds modern progress					
NY/GA	0.125	0.158	--	0.693	
NY/TX	0.125	--	0.032	0.124	
GA/TX	--	0.158	0.032	0.039	**

	NY	GA	TX	P-Value	Level of Significance
Protects/won't harm the economy					
NY/GA	0.125	0.000	--	0.037	**
NY/TX	0.125	--	0.041	0.172	
GA/TX		0.000	0.041	0.018	**
Visible					
NY/GA	0.031	0.053	--	0.654	
NY/TX	0.031	--	0.044	0.721	
GA/TX	--	0.053	0.044	0.838	
Provides property tax relief					
NY/GA	0.188	0.026	--	0.033	**
NY/TX	0.188	--	0.000	0.007	***
GA/TX	--	0.026	0.000	0.313	
Protects states' rights					
NY/GA	0.000	0.026	--	0.318	
NY/TX	0.000	--	0.018	0.083	*
GA/TX	--	0.026	0.018	0.758	
Attracts federal investment					
NY/GA	0.000	0.026	--	0.318	
NY/TX	0.000	--	0.000	NA	

	NY	GA	TX	P-Value	Level of Significance
GA/TX	--	0.026	0.000	0.313	
Protects segregation					
NY/GA	0.000	0.026	--	0.318	
NY/TX	0.000	--	0.000	NA	
GA/TX	--	0.026	0.000	0.313	
Performs moral work					
NY/GA	0.000	0.000	--	NA	
NY/TX	0.000	--	0.000	NA	
GA/TX	--	0.000	0.000	NA	
Protects against/won't harm inflation					
NY/GA	0.000	0.000	--	NA	
NY/TX	0.000	--	0.000	NA	
GA/TX	--	0.000	0.000	NA	
Significance levels indicated as follows: *** p<0.01, ** p<0.05, * p<0.10					

APPENDIX TABLE 3: ANTI-SALES TAX CLAIMS

	NY	GA	TX	P-Value	Level of Significance
Burden not fairly distributed					
NY/GA	0.447	0.594	--	0.149	
NY/TX	0.447	--	0.560	0.096	*
GA/TX	--	0.594	0.560	0.733	
Too much of a burden					
NY/GA	0.532	0.563	--	0.765	
NY/TX	0.532	--	0.421	0.104	
GA/TX	--	0.563	0.421	0.153	
Unfair					
NY/GA	0.160	0.156	--	0.965	
NY/TX	0.160	--	0.185	0.631	
GA/TX	--	0.156	0.185	0.701	
Hurts the economy					
NY/GA	0.362	0.031	--	0.000	***
NY/TX	0.362	--	0.036	0.000	***
GA/TX		0.031	0.036	0.887	
Hurts the economy (excluding organizations)					
NY/GA	0.283	0.031	--	0.000	***
NY/TX	0.283	--	0.032	0.000	***
GA/TX					
Loopholes/exemptions unfair					
NY/GA	0.000	0.000	--	NA	
NY/TX	0.000	--	0.164	0.000	***
GA/TX	--	0.000	0.164	0.000	***
Won't generate enough revenue					

	NY	GA	TX	P-Value	Level of Significance
NY/GA	0.011	0.000	--	0.319	
NY/TX	0.011	--	0.030	0.386	
GA/TX	--	0.000	0.030	0.122	
Tax increase undemocratic					
NY/GA	0.032	0.125	--	0.132	
NY/TX	0.032	--	0.000	0.080	*
GA/TX	--	0.125	0.000	0.034	**
Causes inflation					
NY/GA	0.000	0.000	--	NA	
NY/TX	0.000	--	0.018	0.312	
GA/TX	--	0.000	0.018	0.312	
Hidden					
NY/GA	0.000	0.031	--	0.314	
NY/TX	0.000	--	0.011	0.097	*
GA/TX	--	0.031	0.011	0.530	
Hurts states' rights					
NY/GA	0.000	0.000	--	NA	
NY/TX	0.000	--	0.000	NA	
GA/TX	--	0.000	0.000	NA	