State-Local Centralization During the Great Depression: A Case Study of Ohio

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Abstract

During the Great Depression, state governments assumed many of the revenue-raising and public good provision responsibilities traditionally carried out by local governments, which had important consequences for taxation and public good provision. In order to investigate the causes of this centralization, this paper focuses on Ohio, which underwent one of the most dramatic transformations in government among all states during this period. Contrary to previous work, I find that centralization came about as a response to the needs of state taxpayers and local governments, not the New Deal. The state government was, moreover, responsive to the needs of taxpayers and local governments but both voters and politicians were reluctant to expand state government, which would have overturned a long tradition of local government dominance and self-rule. It was only when the pre-existing local institutions broke down under the weight of the Depression that the state stepped in as a substitute. In doing so, it inaugurated a new era in American federalism.

1 Introduction

Though eight decades have passed since its onset, the Great Depression stands as the defining turning point in modern American governance. There was, of course, the New Deal, which inaugurated the present era of national government dominance.[1] Less remarked upon but arguably as important was the concurrent shift in taxation and expenditure from local to state governments. The state governments' share of total state and local government revenues grew from 26% in 1928 to 46% in 1940 (Fig. 1). Prior to 1929, the state governments were bit players in the federal system, meeting once every few years to pass a modest budget for the few functions the state was compelled to carry out. The Depression, however, broke down the institutions underpinning the system of local government dominance that had prevailed since the nineteenth century. State governments were forced to fill the void. In doing so, the states erected new revenue and administrative institutions that persisted long after the Depression subsided.

The magnitude and circumstances of state-local centralization varied greatly across the country. Though many events, trends, and institutions are common across states, it is not clear how these commonalities (or other factors) interacted to produce a given level of centralization. Here, the process of centralization in one state–Ohio–is studied in detail.[2] By maintaining a narrow focus on a single state, it is possible to draw on longer-run trends in taxation, legislation, and governance to explain the timing, nature, and reasoning underlying centralization.

Before proceeding any further, though, it is worth asking why a study of centralization–let alone state-local centralization during the Depression–should be of any interest. The assignment of tax collections and governmental functions to different levels of government within a federal system has non-trivial consequences for the amount, type, and distribution of public goods.[3] Education finance provides a good motivating example. A voter's preferences for education expenditures depends on factors like income and whether or not they have children. The actual tax revenues provided for education, however, is decided either through

[1] In order to avoid confusion between the federal level of government and the federal system of governance, the government in Washington D.C. will here be referred to as the national rather than federal government.

[2] Though a sample size of one is never ideal, there is nothing to suggest that centralization in Ohio was any more exceptional than in any other state. The extent of centralization in Ohio, to be sure, was greater than in the average state. This one important exception, however, should be weighed against the fact that the state's mix of industry and agriculture, rural and urban areas, and system of government were broadly representative of the country as a whole.

[3] "Fiscal federalism" is the name that has been attached to the literature that studies intergovernmental fiscal relations. The discussion of the fiscal federalist literature presented here is necessarily cursory. A classic (and more nuanced) discussion of normative fiscal federalism is Oates (1972). Oates (1999) reviews recent developments in the normative literature. Even more recently, a positively-oriented "second generation" fiscal federalism literature has emerged. On this literature see Weingast (2009) or Oates (2005).

a direct vote or by popularly-elected representatives. Roughly speaking, if each voter has a most preferred tax rate for education, then the tax rate approved in a vote will be that of the median voter–the voter who provides the least majority necessary to carry a bill. The identity of the median voter, then, matters greatly. Tiebout (1956) provided the fundamental insight that voters tend to sort into the communities that best reflect their preferences for public goods and other environmental factors.[4] Thus, at the local level, the preferences of the median voter are–relative to all of the voters in the state–similar to other voters in the community. The taxes levied and public goods provided, then, are close to each individual voter's preferred bundle. Now, if the amount of taxes levied for schools is decided at the state level, then the tax levy that is ratified will be different from that which would be agreed upon at the local level. This occurs because the identity of the state's median voter is different from that of each local median voter. The level of taxation for education, then, is not only different when the state is in charge, the preferences of voters, ceteris paribus, are not as well satisfied.

A number of factors suggest that local governance may not always be ideal, however. First, economies of scale in public good or service provision may be achieved with greater centralization–it doesn't make sense for each county to sponsor separate medical research programs.[5] Second, centrally-provided public goods may have redistributive effects. In the education example, if the state collected and distributed school funds, then poorer districts would–in principle–be able to provide their pupils with the same education received by pupils in wealthier districts. It may also be easier for larger jurisdictions to collect certain taxes. If one neighborhood has a sales tax while another does not, then consumers can just buy their goods in the neighborhood without taxes. Finally, if the national or state government transfers revenues to a local government, it may require the local government to provide matching funds or adhere to certain conditions. The state may, for instance, require that all schools receiving state funds follow a given curriculum. In a situation like this, local decision-making autonomy is, to some extent, undermined.

The level of centralization preferred by each voter, then, varies depending on their own individual circumstances and that of other voters. Several prior studies including Wallis and Oates (1988) and Stonecash (1988; 1985), have sought to correlate cross-state centralization with the demographic and political variables suggested by the reasoning outlined above.

[4]Of course, since voters have preferences over an entire range of taxes and public goods, sorting is nowhere near as tidy as is assumed here.

[5]The example of research funding raises another pertinent point that is due to Musgrave: if individuals and governments outside of a jurisdiction can benefit from a service provided by the taxes of a jurisdiction, then the service is best provided for at a more centralized level of government. When those who benefit from the service contribute to its financing, the free rider problem is overcome.

Panizza (1999) models these changes formally and tests the model on a sample of countries. The results of these studies are mixed, however, and are seriously hampered by their cross-sectional design. Schaltegger and Feld (2001) and Matsusaka (2000) investigate the effects of voter referendums and voter initiatives, respectively, on centralization and find that both lead to less centralized government. Baker (1998) finds evidence that states where governors have greater veto authority are more centralized. Stephens (1974) and Baicker, Clemens and Singhal (2012) present evidence supporting the argument that federal grant programs were a major spur of centralization during the post-war period.[6]

The primary difference between centralization during the Great Depression and that studied in the existing literature is the *rate* of centralization. Whereas previous papers have focused on gradual changes occurring over a period of decades, the centralization that occurred during the Depression happened within a few brief years and was of greater magnitude than that which occurred over the entire post-war period. The effects of Depression-era centralization persist to the present; many of the institutions that brought about centralization still exist. A positive account of Depression-era centralization, then, should contribute to understanding the interests and issues that contribute to centralized government and, in normal times, keep it in check.

On a historical plane, this study's focus on state-local fiscal relations functions as a (slight) counterbalance to the overwhelming focus of the Great Depression and New Deal literature on the actions of the national government. Although the secondary literature has not completely ignored the role of state and local governments in the Depression, the work that does focus on sub-national governments tends to view their actions through the lens of the New Deal. James Patterson (1969), for instance, argues that most–if not all–government action during the Depression was catalyzed by the efforts of a few New Deal administrators. David Maurer's (1962) study of public relief in Ohio has a similar theme. John Wallis (1998, 1984, 1991) is far more careful in his pronouncements but similarly assumes that most if not all of the changes in state and local governments during this time were spurred by the New Deal.

David Beito's *Taxpayer's in Revolt* (1989) is one of the only studies that has examined the Depression-era tax situation in detail. Bieto's subject is the anti-tax movement that was triggered by the Depression, which was directed primarily at state and local taxes. He argues that, though the anti-tax movement was disorganized and sometimes incoherent, it functioned as a crucial anti-government counterweight to the self-styled Progressives, who believed that only more government could revive the nation's economy. That taxpayers disliked taxes does not necessarily mean that they desired less government, though. Hartley,

[6]Epple and Nechyba (2004) provide an overview of the theoretical literature related to centralization.

Sheffrin and Vaschie (1996) present evidence from California suggesting that, rather than desiring a reduction in government, taxpayers were in favor of changing the *mix* of taxes collected.

The analysis most similar to that presented here, however, is Jon Teaford's *The Rise of the States* (2002). Teaford examines both the revenue and expenditure problems faced by state and local governments during the Depression and argues that the states were far more proactive in their response to the Depression than is commonly assumed. The state he takes as his case study, though, is North Carolina, which underwent an exceptionally systematic and orderly process of centralization–a point Teaford concedes. In just about every other state (including Ohio) the sudden importance of the state government came as a surprise to almost everyone.

Ohio's experience with centralization suggests that it came about as a haphazard response to the Depression-induced fiscal distress of local governments and individual taxpayers. Though the New Deal did compel the states to raise funds for relief, in Ohio the new taxes enacted and responsibilities assumed by the state government were primarily a response to the needs of citizens and local governments. Admittedly, the timing of the major reforms that led to centralization in Ohio and other states coincided with the advent of the New Deal era. It also coincided, however, with the years during which local governments began to see substantial declines in revenues and when their capacity to provide relief was stretched to its breaking point. In order for the state government to assume a greater role in relief provision and, more generally, within the federal system, it was necessary for the preexisting institutional structure to break down. Only then could a majority of voters and–by extension–state and local politicians agree on the new taxes and programs that increased the role of the state at the expense of the localities.

Section 2 shows that, both before and during the Depression, voters and politicians exhibited strong preferences for preserving the primacy of local government and, thus, local control over government. The Depression caused a sudden decline in employment, incomes, and–eventually–local government revenues across the state, developments that are examined in section 3. High unemployment alone, however, was not a sufficient condition for centralization. Indeed, during the early years of the Depression, state legislators made several proposals to take a greater role in relief provision but were shot down by local interests and citizens' organizations. From the perspective of most politicians and voters in 1929, 1930 and even 1931, the Depression appeared to be just another periodic business downturn that could be handled by local institutions. Once it became apparent that this was not the case, the state did begin to raise the taxes that resulted in centralization of revenues. These events are reviewed in section 4. Finally, in section 5, we show how this revenue centralization led

to administrative centralization, particularly in the realms of education and social insurance.

2 The Fiscal and Functional Structure of Ohio Government, 1900-1929

Prior to the Depression, local governments carried out the majority of governmental functions in the state and collected the majority of taxes. Table 1 contrasts the Ohio state government's share of total state revenues with the national average. In 1913 the state's share of revenues was already 8% below the national average; this difference widened to 15% by 1932 despite a 4.5% increase in the state's share of total Ohio revenues. It was only during the Depression that the Ohio state government's share of revenues rose to a level consistent with that of the rest of the country. We shall investigate the causes of this centralization in later sections. This section will review the functions, institutions, and finances of state government in the pre-Depression period, which will provide the context necessary to understand the causes of centralization.

2.1 State and Local Public Goods and Services Prior to the Depression

As in other states, the functions and revenues of all Ohio governments grew rapidly during the first three decades of the twentieth century. Since the rate of revenue growth for Ohio local and state governments was roughly equal, however, the net effect of this growth on centralization was minimal. Many of the functions that are now thought of as the inherent province of state or federal governments were, throughout the first three decades of the twentieth century, carried out by various local governmental units. Key among these were poor relief and education, which together accounted for about a third of U.S. local government expenditure (Carter et al. 2006). Road construction and maintenance provide one early example of state-local cooperation. During the Depression the state government took on a greater role in providing each of these services–a role that persists to the present.

2.1.1 Education

Several major trends in Ohio education in the pre-Depression period should be noted at the outset. First, overall enrollments–especially in the high school grades–were increasing; a trend seen throughout the entire country. The percentage of children ages five to eighteen enrolled in school rose from 65.5% in 1900 to 82.3% in 1930; high school enrollment increased

by a factor of four during the same period. Second, the growth of the state's total population outpaced the growth of the school-age population, which accounted for 30% of the total population in 1900 but only 23% in 1930. Third, from 1900 to 1930 enrollment decreased 14% in county (i.e. rural) school districts while enrollment in city school districts rose 284%. City enrollment became larger than county enrollment between 1910 and 1920. Fourth, though the number of one-room schools was cut by 50% from 1914 to 1929, there were still 4,624 in operation in the latter year. The relatively high fixed cost of operating individual schools meant that rural taxpayers either had to contribute more to support local schools or put up with lower-quality schooling. The same consideration led contemporary school finance experts to push for school consolidations.[7] Fifth, average per pupil real expenditures increased from $78.04 in 1900 to $195.53 in 1930 (Holy and McKnight 1937, 35, 62ff.). Part of this increase, no doubt, can be attributed to greater high school enrollment–high school education was substantially more expensive. The rest is attributable to the development of a more comprehensive educational program more akin to modern schooling than the three-Rs. Finally, though the level of education spending was increasing, the share of local expenditures devoted to education was not; education expenditures accounted for 26.5 and 26.4% of total local expenditures in 1902 and 1932, respectively.[8] This fact is accounted for by rising expenditures on other government services.

Almost all school revenues came from locally-collected property taxes. The desire to maintain local autonomy in school curriculum and finance more often than not outweighed the temptation of lower local taxes that a centralized school finance program would have offered.

Beginning in the first decade of the twentieth century, however, the state did take on a gradually more active role in school finance and regulation. The 1906 State Aid Law provided the only direct state funding for education from 1906 to 1935. To qualify for this aid, districts had to have below-average per-pupil taxable wealth and the local education levy had to be at least 9.5 mills.[9] The state Department of Education, however, was permitted to dictate the number and salaries of teachers as well as the district's expenditures on transportation. Aid for weak districts was allocated by the General Assembly from the state's General Revenue Fund to the Department of Education, which had complete authority to distribute the funds as it saw fit.

[7] On the high school movement see Goldin (1998) and Tyack, Lowe, and Hansot (1984). For an alternative view on one-room schools see Fischel (2009).

[8] Data: Wallis, Sylla, and Luger (1993) for 1902 and 1932. The comparison years are, perhaps, non-ideal because revenues for schools fell substantially between 1929 and 1932. Unfortunately, these are the only years for which data are available.

[9] One mill is equal to $0.001 dollars. Thus, 10 mills is equivalent to a 1% tax and 1 mill is a 0.1% or one-tenth of one-percent tax.

In the first few years of the program only a fraction of the total appropriation was distributed to districts. Holy and McKnight (1937, 93ff.) note that school districts' fears of being controlled by the state made them reluctant to accept state funds. By 1930, however, about one-third of Ohio districts participated in this program. The other two-thirds of the districts were entirely dependent on local resources. Though the absolute amount of aid provided by the state increased from $10,000 in 1906 to about $4.5 million in 1930, local revenues for schools grew much faster. The proportion of school revenue contributed by the state fell from 16.9% in 1900 to 6% in 1920 and 4.3% in 1930.

2.1.2 Unemployment Relief and Aid to the Disabled

Welfare and other forms of social insurance were a local responsibility. Indeed, as of 1929, the Ohio state government appears to have appropriated no funds for aid to aged, disabled, or unemployed persons (Ohio Auditor of State 1930). The Ohio Poor Law made relief of independent persons and families (i.e. those who lived within their own home) the responsibility of the cities and townships while relief of non-residents and fully-dependent persons was the responsibility of the counties.[10] Several special funds were also put in place for the blind, single mothers, and veterans. Other than these provisions, the Law was quite broad, permitting a huge range in poor relief provision between localities. This feature, however, also allowed authorities to adapt quickly to changing conditions.

Up to early 1930, most relief at the local level was administered by private charities. In some areas–especially in the larger cities–these charities received substantial public revenues to carry out their work. Of course, privately-operated, privately-funded charities existed to varying degrees everywhere. Relief in smaller cities, townships, and counties was the responsibility of generalist officials like the director of public safety or county commissioners. Since these officials had several other major responsibilities and were less likely to have specialized knowledge of relief provision, administration of the Poor Law in these areas was thought to be less effective. Not surprisingly, rural areas of the state (including the mining regions) oftentimes had less revenue to draw on for relief.

The local provision of social insurance is perhaps the most striking deviation of the pre-Depression federalist structure from that predicted (or prescribed) in the fiscal federalist literature. Social insurance programs are generally thought to operate best at non-local levels of government in order to avoid situations where the unemployed move to areas with better unemployment benefits and to ensure that all areas have adequate funds to finance unemployment benefits. Prior to 1929, however, it seems that voters and politicians were most concerned with ensuring that recipients didn't take advantage of the benefits they

[10] This discussion draws on the report of The Ohio Commission on Unemployment Insurance (1933).

received. By administering aid at the local level, it was possible to monitor aid dispensation closely.[11]

2.1.3 Roads

The advent of the automobile as a form of mass-transportation in the late teens set off a period of rapid expansion in road infrastructure. The state highway department was first tasked with building roads and planning a state-wide highway system in 1910 and 1911, respectively. Revenues for roads initially came from property levies. From 1923 on, however, the state financed roads through the general fund, license fees and a gas tax, which was first introduced in 1925 (Bureau of Public Roads 1927).

On a per capita basis, governmental expenditures on Ohio roads outpaced the national average.[12] Local government per capita expenditures on roads was $17.21 in 1927 while the average for local governments in all states was $9.53. In the same year the Ohio state government spent only $3.80 per capita on highways compared to the average of $4.89.

Attributing these expenditures to a given level of government is not as straightforward as it would first appear, however. The one cent Ohio gas tax, passed in 1925, allotted 45% of revenues to the state and the remaining 55% to localities. Of those local revenues, 30% was distributed evenly among the eighty-eight counties while 25% was distributed to municipalities based on vehicle registrations. Though the state collected the gas tax, those revenues that were distributed back to the localities were recorded as local revenues (Crawford 1939, Ohio Tax Commissioner 1947, 47-48).

State governments took a more active role in road building than in other government functions for three reasons. First, there was a need for a central planner that could coordinate road construction across jurisdictions. Second, both residents and non-residents benefited from road infrastructure, especially highways. There was a major effort to spread the cost of roads over all users who benefited from them, a goal that suggested a state-wide levy. In fact, there was an effort to tax "foreign" vehicles from other states (Burnham 1961). Finally, the state government was best positioned to collect license fees and gas taxes; motorists couldn't simply go to the next town to fill up their tanks and avoid the tax. Taxpayer mobility plays a crucial role in determining the overall tax mix and the authority that collects the tax. We will return to it in section 2.2.

[11] On contemporary attitudes towards aid see Patterson (1969, 26ff.)

[12] The data on highway revenues and expenditures is neither as consistent nor complete as one might hope. For instance, a USDA report stated that state rural highway expenditures during 1921 alone amounted to $15 million whereas a joint USDA-Ohio Department of Highways study stated that total state highway expenditures for 1921 were $11 million (see Anderson (1925) and Bureau of Public Roads (1927)). The magnitude of the figures presented by the Committee on Research of the Governor's Taxation Committee are more consistent with Anderson. It is these sources, then, that shall be relied upon here.

Further funding for road construction and maintenance came from a mixture of debt and the property tax. In 1928, 18% of all road expenditures in the state were financed with bonds while a further 45% came from taxes other than the gas tax or license fee.

None of the considerations that led to the semi-centralized provision of roads necessarily applied to education and unemployment relief. For these services the desire to maintain local autonomy seems to have trumped all else. One outcome of this arrangement was that the provision of these services was uneven throughout the state. Another, perhaps more important result was that public services in the state were increasingly funded through a mixture of ever higher property taxes and debt.

2.2 Taxes, Public Debt, and Limitations

Local government dependence on the property tax arose from necessity rather than choice. All of the other common, lucrative streams of revenue–business and personal income taxes, for example–break down in small jurisdictions with mobile populations. Just as a motorist can avoid a gas tax by filling up outside the city limits, so too can a taxpayer avoid income taxes by locating elsewhere. Property taxes–at least in this period–did not fall into this pitfall because they were so widespread (and, thus, not easily averted) and demand for property was relatively inelastic. Thus, so long as the localities had to rely on their own revenues to fund the vast majority of governmental services, the property tax would continue to be a mainstay in the tax mix.[13] The flaws of the tax, however, were well-recognized and complaints from property owners were a constant. Several attempts to reform the property tax base and limit the burden of property owners occurred in Ohio in the first few decades of the century. These programs, however, led to arguably greater problems, which caused their eventual repeal. With the exception of the 1925 gas tax, then, the structure of Ohio government finance in 1929 was little different than in 1900.

Why was the property tax so widely denounced? Certain types of property such as real estate were relatively easy to assess and tax while personal property, especially intangible property, was not. Real estate owners were thought to bear a disproportionate share of the total property tax burden. In the years before 1911, real property's share of total property valuations in the state stood at about 70% (Ohio Auditor of State 1930, 343).

Owners of intangible property were well-incentivized to hide their property from assessment. The Ohio Constitution required that all property be assessed at a uniform rate.[14]

[13] It's worth mentioning that the state had final say over what taxes local governments could or could not raise. This was never a major issue, however, since it was recognized that most taxes weren't viable options at the local level.

[14] The uniformity principle was enshrined in the statutes or constitution of almost every state until the thirties. The principle of taxing all property at the same rate can be contrasted with classification systems,

Under the uniformity principle, the full value–rather than the capital gains–of intangible property was taxed. If intangibles were taxed at full value, they would be substantially less profitable. Contemporary sources allege that, instead of paying taxes on their holdings, stock and bond holders often chose to stuff their certificates away in sock drawers when the tax collector came calling.[15]

A second problem with the property tax was that local property was intentionally under-assessed by locally-elected county assessors.[16] This meant that counties with relatively high assessments paid a disproportionate share of state taxes. Under-assessed areas were able to free ride off of the efforts of other areas.

2.2.1 Reassessment and the First Tax Limitation

In an effort to obtain better assessments, the state legislature in 1909 passed a statute calling for quadrennial rather than decennial property reassessments at 100% rather than 30% of full value. If left unchecked, such a reassessment could have led to substantially higher tax bills. Public animosity towards the statute rose as the 1910 reassessment approached. County tax officials signaled that they were weary of undertaking the assessment. To head off the situation, the State Tax Commission convened a meeting with county officials. The parties agreed that the counties would commence with the reassessment but that the legislature would pass a bill limiting the total rate on a given piece of property to 10 mills. With the passage of just such a bill, Ohio became the first state to impose what became known as a blanket tax limitation.[17]

This first tax limitation, then, may be viewed as a commitment mechanism. On the one hand, politicians and certain factions (especially farmers and homeowners) wanted the re-assessment to proceed because they believed that it would lead to a more equal tax structure. Contemporaries posited that a tax limitation would entice more personal property onto the roles because they were assured a lower rate. On the other hand, taxpayers and assessors could not (at least initially) ensure that higher assessments would not just lead to a higher tax bill. By imposing a tax limitation on property, however, the state was able to ensure that the latter development did not occur.

The ten-mill limit, which was known as the Smith Law, was passed in 1910. Average millage in the state fell from 30.5 mills in 1910 to 11.06 in 1911. Though the reassessment

which taxed different types of property at different rates. See also section 4.1.

[15] This brings up a further objection to the property tax: it "forced" usually law-abiding citizens to break the law.

[16] Property assessment and general tax administration was carried out at the county level in Ohio.

[17] "Blanket" refers to the fact that the total millage on the property was limited. This is distinct from more common municipal or special limitations (which had been around since the 1870s) that limited the millage a county, municipality, or special district could levy (Wilcox 1922, Atkinson 1934, 26ff).

did nearly triple the valuation of property in the state, it did little to shift the burden from real to personal property. Indeed, after the reassessment personal property accounted for 31% of total property whereas before it accounted for 33%.[18] The limit–at least initially–did achieve its desired effect of containing revenue growth in spite of greater property valuations. Total property revenues fell from $75m in 1910 to $72m in 1911 and rose to $73m in 1912 (Committee on Research of the Governor's Taxation Committe 1930, 47, table 21; Wilcox 1922, 46, table 14).

Despite higher property assessments and a reduced state government property levy,[19] the growing demand for locally-provided public goods could not be met with a levy of only 10 mills. Amendments to the Smith Law in the years that followed gradually dismantled the tax limit. Exemptions for emergencies of different classes were widened. A further provision that was meant to limit revenues to 112% of their 1910 levels was repealed in 1913 after it became apparent that such a limit was impracticable. Average millage rose to 13.55 mills in 1915 and then to 15.34 mills in 1919; revenues grew accordingly.

Arguably the most important revisions to the ten-mill limit were those related to deficits and debt. In 1913 levies for sinking funds and debt service were exempted from the limit. Municipalities were permitted to issue bonds for deficits beginning in 1917; school districts were given a similar privilege in 1919.

Contemporary observers like Clair Wilcox and R.C. Atkinson argued that local governments' ability to issue debt without restrictions allowed them to expand expenditures without undertaking the politically unpopular move of asking for an out-and-out repeal of the 10-mill limit. Table 2 is copied from Wilcox's *Rate Limitation and the General Property Tax in Ohio* (1922). Overall local debt more than doubled from 1910 to 1920. It is not immediately evident, however, that this growth in debt was extraordinary. Table 3 compares per capita local government debt in Ohio and a selection of states. In general, states with tax limitations experienced greater increases in local debt over the 1912 to 1922 period. The rate of growth in Ohio local government debt places it squarely in the middle of the sample. Even if it was the case that Ohio local governments issued debt to circumvent tax limits, then, it was not the case that their debt issuances were any greater than in other states.[20]

[18] Unfortunately, no data is available on the total number of taxpayers, which would be another indication of the redistributive effect of the reassessment.

[19] See section 2.2.2.

[20] Two caveats to this conclusion should be noted. First, from table 2 it is clear that a large amount of the growth in Ohio debt occurred in the first five years after the ten-mill limit was passed. Since table 3 compares 1912 and 1922 figures, the growth in debt after the limitation was passed is probably understated. The increase in gross debt in Ohio from 1910 to 1920 (from the last column of table 2) was 272% (note that this figure is not in per capita terms and does not account for sinking fund assets). Second, the sample of "comparison states" is somewhat arbitrary. The tax limitation states include three of the five states that imposed a state-wide limitation on at least municipal levies from 1910 to 1925 (Newcomer 1934). The

Major changes to the state's tax structure and governmental organization occurred in 1921. The arguments against the 10-mill limit had stacked up in the decade since its passage. Despite laws mandating otherwise, few counties were reassessed after 1911.[21] The limit failed to bring intangible property onto the tax rolls in any great quantity, perpetuating the "unequal" distribution of taxes across the state. Though school expenditures actually grew at a rate greater than that of other states, the increase in education revenues was only 52% as great as other states–the rest of the expenditure growth was financed through debt. These problems, along with the debt and sinking fund issues already discussed, led the legislature in 1921 to relax the limit to 15 mills. Cities, counties, and school districts were also given the ability to levy taxes above the limit with the approval of voters.

What was the effect of the 1921 reforms? Amendments to the tax limitation law prior to 1921 had allowed local governments to find roundabout ways to increase their levies. By 1920 the average property tax levy in the state had risen to 20.6 mills. From 1921 to 1928 the average levy ranged from 21 to 23 mills.[22] The effect of the reforms on average levies, then, was negligible.

The tax limit may have also affected the relative growth of expenditures among different taxing authorities and government services. Voters were generally willing to vote for higher levies for schools; in 1928 the average millage for school districts outside of the tax limit was 2.6 mills.[23] Voter control over the extra millage also led to cases where governments were starved for funds to finance necessary expenditures. This could have occurred because expenditures like, say, sewer maintenance are less obviously beneficial for voters either directly or through property values. Alternatively, R.C. Atkinson, a contemporary policy expert, suggested that the City of Cincinnati found it easier to convince voters to approve extra millage for the city after it implemented the city manager plan, which was supposed to reduce corruption (Atkinson 1934).[24] Of course, since school districts could raise funds through

comparative states were selected from states that tax commissions (e.g. Ohio Tax and Revenue Commission (1940)) used to make comparisons.

[21]Indeed, though assessments rose in nominal terms, in real terms property assessments fell more than 10% from 1911 to 1921 (Ohio Auditor of State 1929).

[22]Average millage computed as total property taxes collected in the state over the total property valuation in the state. This is the same measure used by Wilcox (1922) for the 1910-1921 period.

[23]i.e. schools were apportioned a certain amount of "free millage" under the 15 mill limitation and, as a result of the 1921 reform, voters could approve further collections for schools outside of the limitation. Average millage outside of the limitation computed from the Annual Report of the Ohio Auditor of State (1929). The sums of county school district taxes collected outside of limitations (columns 4-A and 4-B, p. 353-54, Ibid.) were divided by the total property value in the state (column F, p. 349, Ibid.). This method is consistent with that used by Schultz (1935) for the years 1933-34.

[24]Claims like this should be taken with a grain of salt. Atkinson–and most other "policy experts" during this period–was a staunch Progressive with an agenda that included not just opposition to tax limitations but also support for the city manager plan, greater state centralization, and more "rational" government.

levies outside of the limitation, they may have required less millage within the limitation. The equilibrium effect of the tax limits on expenditure growth and the tax share of different taxing units, then, is uncertain. Finally, it is worth noting that, since county governments were in charge of apportioning millage under the tax limit to different taxing authorities, they may have been able to meet most of their revenue needs through the property tax alone.[25]

The tax limitation appears to have been the only major attempt to alter the basic structure of Ohio local government finance in the pre-Depression period.[26] A survey of proposed constitutional amendments from this time shows that reform efforts were still active if unsuccessful. All of the proposed amendments relating to taxation proposed between 1920 and 1929 failed.[27] Of these, one permitted the levying of a poll tax (1921), two were tax limitations (1922, 1923), two related to government debt limitations (1922, 1925), one sought to make property assessment a non-elective, county-level responsibility (1923), one was a classification amendment (1925), and one authorized municipalities levy assessments for public improvements on abutting property only.[28] Almost all of these proposals would be approved in the course of the Depression but only under duress. Any major reduction in local government dependence on the property tax would have shifted the tax burden on to a new group–which was well-incentivized to advocate against any increases–and increased the state government's role in tax collections. It would seem that, in a period of relative prosperity, neither voters nor politicians possessed the will (or incentives) to make such a change.

2.2.2 Financing State Government, 1900-1929

State governments are less limited in the types of taxes they can levy. Their sheer size largely prevents the tax migration that hampers the collection of many taxes in smaller jurisdictions. This fact led the Ohio state government to develop new sources of revenue to finance its own activities and reduce its dependence on the property tax.

[25] See section 3.2 on the debt position of the counties at the outset of the Depression.

[26] Atkinson (1934) mentions a local government debt limit. Such a law could not be located in the statute books from this time and no other sources mention it, however. Judging by the rapid growth of local debt during this time, though, if a limit did exist, it probably had a negligible effect on borrowing behavior.

[27] Of course, there may have been certain statutory changes in Ohio Tax Law. I take the record of voter initiatives and referendums to be indicative of overall sentiments towards major changes in the property tax structure during this time.

[28] This last proposed amendment only makes sense in the context of the section of the constitution it was meant to amend. Article XIII, section 6 of the Ohio Constitution says, if a municipality undertakes a public improvement, it is permitted to levy a special assessment of up to 50% of its on property abutting the improvement. For example, if a city is putting in sidewalk, then it can make the homeowner whose house the sidewalk runs in front of pay 50% of the cost of the sidewalk but the other half must come from a general revenue fund. The proposed amendment would have allowed the municipality to make the homeowner pay 100% of the cost (Schultz 1935).

In the first decade of the century, property taxes fell from 67% to 27% of total state government revenues. In place of property taxes, the state was tapping into different corporate taxes and public utilities excise taxes. Most of the costs of individual state departments were covered by fees specific to the services rendered by the department.[29]

After the passage of the 10-mill limit in 1910, the state immediately reduced its property tax levy from 1.345 to 0.451 mills. With higher assessments in place this meant that 1912 state property levies were only 17% less than those of 1911. Property taxes as a share of total state revenues, however, decreased by from 26% to 17%.

The state constitution largely barred the state from issuing debt. This provision appears to date back as far as 1851 and permits the state to only finance prior accumulated debts and casual budget deficits.[30] The total accumulated deficit at any one time was not permitted to rise above $750,000. Real state government debt per capita fell from $11.55 in 1915 to $2.22 in 1929 and $0.11 in 1935 (Shawe 1936).

While the debt limit did make it more difficult for the state to increase expenditures on relief during the Depression, it also meant that the state was in a relatively strong financial position. The state government was never at risk of default. When revenues did begin to fall, it wasn't necessary to shift revenues for ordinary operating purposes to debt service.

This did not mean, however, that the state was immediately able or willing to take up the burden of relief. Indeed, it was not until 1932 that the state government began to provide something approximating direct relief to the unemployed. What took so long? There was, as has already been noted, a strong bias towards local control and an aversion to making any major changes to the tax system. In order to overcome this inertia it was necessary for the pre-existing social insurance and tax institutions to near their breaking point. We now examine these developments.

3 Unemployment, the Fiscal Crisis, and Government Centralization, 1929-1940

The 1929 crash triggered a sudden, steep increase in unemployment across Ohio. As taxpayers' incomes fell, they demanded lower taxes. Lower incomes also led, for a number of reasons, to shrinking government revenues. Demand for government services, however, was increasing. In short, taxpayers needed government services most when they were least able to pay for them.

[29] e.g. The state bank examiner charges banks for doing examinations. See Wilcox (1922, Table 10); Committee on Research of the Governor's Taxation Committee (1930, table 4); Schultz (1935, 9-12)

[30] Wallis (2000) discusses the canal-building mania that probably led to the limit.

Local governments stretched their budgets to meet these needs. From the point of view of a policy maker in 1929, the crash was just another business depression; normalcy would soon return. As the years wore on, however, the reserves of governments and taxpayers were drained even as the need for funds became more acute. The state government responded first by tweaking certain revenue provisions but–when it became apparent that this would not be enough–they overhauled the governmental structure of the state.

3.1 The Business Depression

Throughout the twenties, the unemployment rate in Ohio hovered around ten percent. It then briefly fell to 5.6% in 1929 before rising to 17.3% and 30.2% in 1930 and 1931, respectively (The Ohio Commission on Unemployment Insurance 1933, 30). Unfortunately, unemployment data for other years and states is not available. John Wallis has, however, constructed a state-by-state *employment* index for 1929-1940. While it is not possible to determine the magnitude of employment or unemployment from this index, it is possible to determine the decline in employment relative to the state's 1929 employment level. Wallis sets employment in all states equal to 100 in 1929. By 1932 the Ohio index had fallen to 67, which was ten points below the national average but two points above the regional average (Fig. 2).[31] Employment in the state reached its trough in August 1932–one year earlier than other states in the region. While employment returned to its pre-Depression level briefly in 1937, it was only during the war years that employment fully recovered.[32]

It is also possible to get an idea of the distribution of employment across the state's major cities. The cities in the southwest quadrant of the state–Cincinnati, Dayton, and Columbus–had the highest employment rates. Employment in the cities in the northwest like Cleveland, Canton, Akron, and Youngstown was anywhere from ten to thirty index points below that of other major Ohio cities.[33] In general, the larger cities had greater employment; perhaps this is an indication that the more economically diverse cities were less drastically affected. Alternatively, the differential impact of the Depression on different industries may

[31]Note that the magnitude of the decline in the index may be influenced by the fact that unemployment in 1929 was unusually low (and, thus, employment was unusually high). Since most states reached their economic crests in 1929, however, it seems safe to assume that unusually high employment in 1929 would be common across all states. This implies that comparisons between states using this index are appropriate. Neighboring states can be defined as the other states in the east north central census region: Wisconsin, Illinois, Indiana, and Michigan.

[32]Yearly cross-state data: Wallis (1989); Monthly Ohio Employment data: Arnold and Yocum (1949). It is important to note that Wallis uses 1929 as his base year while Arnold and Yocum use 1925 in theirs. Both locate the trough in employment in 1932 and the Wallis data captures the same 1937 uptick that Arnold and Yocum observe, however.

[33]For city-level employment data, see Schultz's (1935) appendix K, which reports monthly data using a 1926 base year.

have caused different employment outcomes in cities that depended more or less on a given industry. For example, the paper and printing industry, which was concentrated along the rivers in the southern part of the state, had returned to 1929 employment levels by late 1933. The vehicle manufacturing industries–largely located in the northern part of the state–cut more than half of its workforce from 1929 to 1932 and did not return to pre-Depression employment levels until 1942 (Rosenbloom and Sundstrom 1999, Arnold and Yocum 1949).[34] Regardless of location or population, all cities hit their troughs in unemployment in March-April 1933. Though employment growth was fairly even across the state, the differential magnitude of the size of the original employment shocks across cities meant that full recovery came earlier to some than others.

What about the rural areas? Direct statistics on rural conditions are not available. A simple comparison of unemployment in rural and urban Ohio counties suggests that urban counties had slightly higher employment.[35] This, however, is probably not the best metric of economic conditions. A farmer may still harvest a crop and, therefore, be "employed." If agricultural prices are depressed, as they were during the thirties, however, then financial distress will nevertheless result. From 1929 to 1931 farm prices and incomes fell by 50.6% and 53.8%, respectively. Farm production–at least in the early Depression years–did not adjust to slackened demand for farm products (The Ohio Commission on Unemployment Insurance 1933, 37ff.).

A further problem faced by farmers was the prospect of foreclosure. Table 4 provides summary statistics of some common farming variables while table 5 correlates 1933 foreclosure rates to these variables. Perhaps unsurprisingly, higher foreclosures were associated with lower farm ownership rates, greater farm sizes, and lower land values. Ohio fell near the mean for all of the variables under study. While the farm foreclosure rate in the state did rise 236% from 1929 to 1933 it was consistently (but only slightly) below the national average. After peaking at a little more than 3% in 1933, the foreclosure rate in Ohio fell quickly so that, by 1937, it was below pre-Depression levels (Alston 1983).

It should be kept in mind, however, that both economic and climatological factors were driving farm foreclosures during this period. The drought in the Dustbowl states caused greater foreclosures, pushing up the national average. Since Ohio was not a Dustbowl state, foreclosures there were largely a function of economic and not climatological factors. Though farm incomes were cut to the bone, Ohio farmers were, by and large, able to hold on to their land.

[34] Another interpretation of the data is that the automobile industry expanded more during the expansion, which would distort the base year comparison.

[35] Comparison based on 1937 Census of Unemployment. Regression tables are available from the author upon request.

Judging by the percentage of the population classified as rural in 1930 and 1940, most farmers stayed put. Indeed, the rural population share increased from 32.2% in 1930 to 33.3% in 1940, a trend consistent with that seen at both the regional and national level (Bureau 1995).[36]

It was the decline in income–not the rate of foreclosures–that most concerned government officials, however. While the property tax may have been unpalatable in the twenties, many taxpayers in the thirties could simply no longer afford it.

3.2 The Property Tax Breaks Down

Tax collections and expenditures lagged behind current economic conditions by a year or more. Local governments, therefore, did not experience substantial revenue troubles until 1931 or 1932. When those years did roll around, however, the dependence of local governments on the property tax threatened to undermine their stability.

The causes of declining property tax collections were twofold. First, property valuations were shrinking. From 1929 to 1933 state property valuations fell 34.9%(Ohio Auditor of State 1930). The second cause was rising property tax delinquency rates. Even if property valuations were falling, the bills received by individual taxpayers did not change to reflect their changing incomes. Though tax delinquency began rising at alarming rates as early as 1920, the growth of revenues was so great that the ratio of delinquent taxes to taxes collected never rose above 1% until the late twenties. During this earlier era local governments could simply issue bonds against delinquent taxes; these levies could be collected eventually (New York State Commission for the Revision of the Tax Laws 1933, 51). All of this changed during the Depression. Delinquencies–especially on real property–mushroomed in the first three years after 1929, reaching 72% of all collected taxes in 1932.[37]

Archibald Schultz, director of research at the Ohio Chamber of Commerce, pointed out that the sudden rise in delinquencies was not a result of higher rates; average millage in the state had remained around 22 mills since the early twenties.[38] Instead, he argued that delinquencies were caused by falling incomes and "a growing laxity of spirit of responsibility."

[36]One explanation for the growth of the rural population share during this period is the back to the land movement best exemplified by the City of Dayton's experimental homesteads, a program led by activist Ralph Borsodi.

[37]Why were most delinquencies on real property? Schultz (1935, 92) suggests that this is due to the classification system. Only personal property used in businesses was subject to taxation and Schultz (the Chamber of Commerce employee) claims that businesses usually paid their taxes. A further consideration is that personal property is, for the most part, more liquid than real property. Thus, it is easier to adjust one's personal property holdings to reflect a lower income.

[38]Of those 22 mills, 15 mills were allowed under the tax limit while the remaining 7 mills were permitted by voters (Schultz 1935, 89ff.).

About this latter factor little can be said. The first, however, seems to provide an attractive explanation. Real per capita income in Ohio fell 32.6% from 1929 to 1933 (Garrett and Wheelock 2006). Real property valuations and property revenues, however, only fell by 15.06% and 20.05%, respectively. While property taxes as a share of total state income was about 6.4% in 1929, it was 7.6% in 1933. Differing levels of property ownership and income shocks among individual taxpayers, of course, would have meant that their tax bill consumed much more or less of their income, making tax delinquency a more or less attractive option.

What governmental units were most affected by falling property taxes? Even before the Depression the fiscal condition of the public schools was precarious; they accumulated yearly deficits and relied on property taxes for more than 90% of their revenues (Schultz 1935, table 18). From 1930 to 1933, total school revenues fell by 27% while interest payments remained at their pre-Depression levels. In order to pay this interest, both capital outlays and current operating budgets were cut drastically. By 1933 it was an open question as to whether schools across the state would be able to open by the next year (Haig and Shoup 1934).

Municipalities avoided substantial decreases in total or property revenues until 1932. The majority of the 14% decline in total municipal revenues from 1931 to 1932 is attributable to property taxes. Other sources of revenue–which comprised more than 50% of all revenues both before and during the Depression–seem to have been less sensitive to economic conditions. It should also be noted that both city and county governments were allocating an increasingly large percentage of their current operating budgets to "charity and correction" (i.e. relief) several years before they began to experience large declines in revenue. This, in turn, made it difficult for local governments to finance other services even when revenues were flat.

Though county revenue receipts fell 17% from 1929 to 1933, much of this decline is attributable to slight decreases in non-tax revenues like fines, fees, and interest earnings. Property tax revenue was fairly steady until 1932, when it dropped off. Importantly, in the next year–1933–the counties began to receive substantial intergovernmental grants and subventions, which meant that total revenues (including transfers) were flat or increasing even as the counties' dependence on the property tax was decreasing from approximately 66% of all revenue in 1929 to 40% in 1934 (table 6). Schultz (1935) argues that county governments were the most stable units of local government because they determined the distribution of millage and had relatively little debt.

In terms of debt defaults, however, it was the schools that seem to have come out on top. By the end of the Depression, local government units had defaulted on a total of $514 million in debt, which was approximately 53% of the total debt outstanding in 1929.

Figure 3 shows that the majority of defaults occurred in 1932 and 1933, the first year local governments experienced substantial declines in revenues. Twelve of eighty-eight counties defaulted on their debt. All defaults occurred before or during 1933. With the exception of two in Appalachia, all defaulting counties were in the northern part of the state, which also experienced the greatest declines in employment. Approximately 101 cities and villages defaulted during the decade; Toledo, Akron and Cleveland all defaulted on some or all of their debt. Only 84 out of 2,033 school districts defaulted, however. Part of this may be attributable to district consolidation but the proportion of defaulting districts is still small compared to the 1,729 that existed in 1936. A better explanation appeals to the state's expanding role in education finance during the decade, a subject that will be returned to in section 5.1 (Fons, Randazzo and Joffe 2011).

The state government never faced the prospect of a debt default. Indeed, by 1929 it derived little of its revenue from property taxes and–after classification went into effect in 1931–ceased collecting the tax altogether. The fiscal distress of local governments and need for relief, however, made it necessary to reform the state's revenue structure. As a result of these new taxes and tax policies, state revenues–and state government more generally–grew quickly during the thirties. The question of which new taxes would be levied and what kind of support would be offered to taxpayers was hotly contested. Any new tax would draw on the same diminished incomes as the property tax. Ultimately, questions of incidence were pushed to the side; revenue needed to be collected by any means necessary.

4 The Legislative and Popular Response to Fiscal Distress and Unemployment, 1929-1940.

The folk history of the Depression tends to view the early policy response of state and national governments as unenlightened and oftentimes crassly self-interested. The failure of the Hoover administration and state governments to intervene to provide stimulus and unemployment relief early and on a large scale was, on this view, a reflection of a failed, pull-yourself-up-by-your bootstraps approach that simply didn't apply during the Depression. But this view is oftentimes improperly influenced by the wider "stimulus v. austerity" debate that still rages today. As earlier sections have already demonstrated, the institutions for unemployment relief and the revenues that would normally fund relief were *local* institutions in 1929. There were, moreover, compelling reasons and interests for keeping these institutions local. To many it would have been rash for the national or state governments to suddenly step in to provide relief even in 1931. Local institutions had functioned relatively well in prior

recessions, there was little to indicate that they would function any worse in the current one. Each month the Depression went on, however, the resources of taxpayers and local governments were pushed closer to their breaking point. The Ohio state government was not ignorant of these developments. It took several steps to push the breakdown of local institutions further into the future and–it hoped–past a period of fiscal hardship. While, in retrospect, these steps may seem pithy, at the time they marked a novel and perhaps dangerous new trend in governance.

4.1 The Inexplicable but Important 1929 Reforms

The movement for a classified property levy predated the Depression by several years. Advocates viewed the uniformity principle as a vestige of a by-gone, simpler era. In order to tax the new forms of property like bonds and stocks that were accounting for an ever-larger share of the state and nation's wealth, it was necessary to tax some property–specifically intangible property–at different rates. More than this, classification advocates argued that, by taxing certain types of personal property at lower rates, more property would be brought on to the tax rolls. This, in turn, would lessen the burden on real property. Farmers and real estate owners were not inclined to accept this reasoning. When the classification amendment was proposed in 1929, they stood ready to strike it down as they had in 1925. A deal was struck. Classification would occur but the 15-mill tax limit would be enshrined in the state constitution. The classification amendment was passed in the 1929 election by a comfortable margin.[39] The farmers and real estate owners also got their wish–a 15-mill constitutional tax limit was passed as well. Of course, the existing 15-mill limit was largely non-binding–the average millage in the state at this time was about 22 mills. The limit was simply cut from the statute books and pasted in the constitution.[40]

Why did voters and legislators suddenly approve these changes when they had resisted them in the previous decade? Atkinson's political explanation, recited above, is that the classification movement struck a deal with the farmers and real estate owners. But what did the latter group get out of putting the already non-binding limitation in the constitution? Were voters perhaps reacting to the real or anticipated effects of the economic downturn? Though the primary sources are silent on this question, the answer is probably no: the stock market crash occurred in late October 1929 while election day was November 7, 1929. Such

[39]The vote tally was approximately 710,000 in favor, 510,000 against (Schwartz and Husted 2013). Unless otherwise noted, this discussion is based on Schultz (1935); Ohio Department of Taxation (1947); Ohio Tax and Revenue Commission (1940), and Haig and Shoup (1934).

[40]Interestingly, even though the fifteen-mill constitutional limitation does seem to have been approved by a popular vote, it does not show up in the official list of Ohio initiatives and reforms (Schwartz and Husted 2013).

a quick response to the Depression (and by the ordinary voter, no less) would seem to require superhuman foresight.

A second, notable change to the tax code that occurred in 1929 was the doubling of the gas tax from two to four cents. The four cent tax was actually composed of two taxes, with one, two cent tax going towards the construction of roads and the other two cent tax going towards their upkeep. The first tax was distributed 45-50 state-to-local while the second tax was distributed 67.5-32.5 (State of Ohio Department of Taxation 1947, 43). Thus, the state was not only collecting new taxes, it was also holding on to more of what it collected. While the four cent gas tax later enabled a major change in state-local fiscal relations (school funding), its passage is probably best viewed as a response to the robust demand of motorists for more and better roads.[41] Though it may be claimed that more taxes for roads would lead to more road constructions jobs and, thus, unemployment relief, this line of reasoning, would, again, seem to assume too much foresight among voters and lawmakers. In short, the the classification amendment and higher gas tax had important but unanticipated consequences.

4.2 The First Excises

Though, as we showed in section 3.2, local government finances did not break down until several years into the Depression, demand for relief did pick up almost immediately. State and local lawmakers understood and anticipated that revenue collections would soon fall. As such, local government officials and property owners were almost always in favor of the state taking a greater role in government finance. In the early years of the Depression, however, those who were in favor of as drastic a program as the sales tax were still very much in the minority–temporary local fiscal distress was not a sufficient condition for overhauling the entire governmental structure of the state. Three sales tax bills were introduced in the 1931 session but these, in practice, served only as starting points from which actual deals were struck.[42]

To meet immediate needs, the state government in Ohio and elsewhere implemented several excise and license taxes on individual goods in the early years of the Depression.[43] From a political economy perspective, individual excise taxes are more likely to be passed than a general sales tax because the group of sellers and buyers that are significantly affected

[41] Almost every state increased its gas levy in the years just prior to the Depression. See National Industrial Conference Board Inc. (1932)

[42] Haig and Shoup (1934) provide a narrative account of the sales tax debate in Ohio and several other states from 1929 to 1933. Unless otherwise noted the discussion of the sales tax presented here is based on this source.

[43] Sales taxes are generally defined in terms of a percentage of the sale price while excise taxes levy a given amount per unit sold. Due to their specific nature, excise taxes are often levied on a single good or subset of goods. Given stationary prices, however, they operate in the same manner as a sales tax.

by them is small and easily outvoted by those who stand to gain from the tax's passage. A cigarette dealer's license fee was added in 1930 and a one cent cigarette excise tax was added in 1931. The retailer's fee was split 75-25 between the state and the local government of origin. The cigarette excise–at least as of 1934–were to go into the state's School Foundation Program fund. License fees never brought in more than half a million dollars in revenue while the excise brought in about $4.8 million in 1934.

Though it didn't necessarily make local governments more financially sound, the state legislature did, in 1931, permit municipalities, townships, and counties to borrow money and issue bonds for relief purposes. All of these bills were passed as emergency provisions, which meant that the law could not be subject to a referendum and, therefore, would go into effect immediately. An emergency bill required a two-thirds majority to be passed. The General Assembly and Governor, then, were overwhelmingly aware and responsive to the needs of local governments. The fact that it was necessary to block any attempt to subject the bills to referendums, however, suggests that there were factions that had a strong interest in opposing greater state action (The Ohio Commission on Unemployment Insurance 1933, Gosline 1935, 94).

The 1931 General Assembly also approved the creation of a commission to study the unemployment problem. Though contemporary policy experts reported that Ohio economic statistics were exemplary and anecdotal reports from different areas of the state were widespread, there existed no synthesized treatment of the nature of unemployment within the state. Without this, any state action on unemployment relief would, at best, be based on guesswork.

The state's own major sources of revenues–business and inheritance taxes–began to break down in 1932. State revenues (other than the cigarette tax) fell 20% from 1931 to 1932. This prompted the governor to exercise his power to cut appropriations to a level consistent with tax collections.

Declining state revenues may have also played a part in the Governor's decision to call a special session of the legislature in 1932, which further loosened the restrictions on local government finance. Probably the most important of these measures permitted counties to issue debt for relief purposes and created a 1% public utility excise tax–collected by the state–to fund the bonds. The Pringle-Roberts Act (as the relief bonds bill was known) was written with the express intent of avoiding the constitutional prohibition on state bailouts of local governments; the public utility excise was simply collected by the state and distributed to the counties. While all of the other actions of 1932 General Assembly only made it easier for different governments to raise revenues for relief, the Pringle-Roberts Act inserted the state government directly into the field of relief and promoted the county as the central unit

for relief provision.

Counties and municipalities were also permitted to divert the gas tax and motor license fees they received from the state for relief purposes. Though they only constituted 6.5% and 8.5% of city and county revenues, respectively, 100% diversion of motor revenues to relief purposes would cover 71% of city and 41% of county relief expenditures.[44] In order to encourage children to continue to attend school, the state allowed school boards to provide clothes, shoes, and medical care. Owners of intangible and other classified property were granted an extension for filing returns on this property. A state relief commission was also approved.

It is also worthwhile to note the bills that the legislature did not pass. Though local governments could now divert their motor revenues to relief, the state declined to divert its own share of auto revenues for that purpose. A proposed constitutional amendment that would have allowed the state to borrow up to $75 million for relief purposes disappeared after being sent to the House tax committee for consideration (Ohio House of Representatives 1932). Such a drastic measure was, perhaps, unnecessary once the public utility tax was passed. The actions of the legislature also suggest that it was largely reacting to the needs of local governments, not for groups like real estate owners. Legislation related to tax relief for real property is conspicuously absent from the 1932 session and, in the 1931 session, the single bill on real property tax relief–which would have wiped out penalties and interest on delinquent property taxes–was vetoed by the governor.[45]

4.3 The 1933 Session

The 1933 legislature was more willing to enact drastic changes. Johnson and Friedman (1935) observed that during the 1933 session, "The recognized morals of former days were seemingly disregarded by the legislators in their quest for more revenue." Local governments had by now experienced significant decreases in tax collections despite ever-increasing demands for relief.

Ten sales tax bills were proposed in the legislature but the sales tax proposal put forth by Governor White–who had just run on an anti-sales tax platform in 1932–was the focus of the most debate.[46] The main interest aligned against the retail sales tax were the retailers

[44]The city percentages are for 1932. The data on which these computations are based–Schultz (1935)–does not provide county auto revenue data for 1932. Data from 1931 was used instead.

[45]On a late January afternoon an angry Representative, Mr. Sheppard of Lucas County, rose to present a resolution to the House that would have, absent any action to relieve the tax burden on property owners, repealed all property taxes. It read, in part, "This house remains idle or occupied with less important matters, while the burden of taxation on the home owner in town and country is daily forcing one taxpayer after another into bankruptcy." (Ohio House of Representatives 1932, 84)

[46]This account draws primarily from Haig and Shoup (1934, 264-270).

themselves. On this issue the usually mutually-antagonistic chain, independent, and department stores were all willing to work together. While the chain stores provided the funds necessary to carry out an anti-sales tax campaign, the small local stores contributed their local influence. The retailers were major newspaper advertisers so, through either threats or long-standing relationships, it was possible to align much of the press against the tax. Labor unions, which were concerned about the regressive nature of the tax, contributed their support. So too did border areas, which were afraid of losing business to neighboring states.[47]

Several major groups organized in favor of the tax. Two lobbies–schools and roads–wanted the tax so that their favored appropriations would again be fully funded and, in the latter case, to stop tax diversion.[48] The farmers and real estate interests favored the tax as a way to reduce dependence on the property tax. Other industries like public utilities, tobacco, soft drinks, cosmetics, and oil favored the sales tax as a way of insuring that their products were not taxed (or taxed any more than they already were).

After the initial flurry of sales tax proposals, each of these sides dug in. Three months of stalemate followed. A special joint committee on taxation was convened with the hope that a deal could be struck. Its proposal called for a graduated, general retail sales tax. The retailers ensured, however, that consumers would pay the tax with coupons, which would be pre-purchased in books and traded in to retailers at the point of sale.[49] Though the effect of the coupon system on prices and incidence is, in principle, equivalent to that of any other system of sales tax collection, it made the payment of the tax more salient for taxpayers. Taxpayers were also expected to lose the booklets and, thus, waste already tight funds, which would have further increased their opposition to the tax. A public campaign run by the retailers made these problems clear to taxpayers.

The resulting public outcry against the coupon system led to the proposal of a non-coupon-based system. The groups in favor of the sales tax, however, soon fell out over how the tax would be apportioned. The school lobby wanted a better funding system while real estate owners wanted tax relief. The real estate interests ultimately ended up siding against the tax because they felt the plan did not go far enough in reducing property taxes. The sales tax was eventually voted down 37-88 in the House.

[47]By the time the 1933 legislature met, all neighboring states except Michigan had approved the sales tax. Michigan adopted the tax in late June 1933. Post-'33, then, it might have been the case that border areas wanted to maintain their competitive advantage.

[48]Outrage among motorists over the diversion of gas taxes across the country was so great that, in 1932, the National Highway User's Conference was formed with Alfred P. Sloan as its first chairman. In 1934 the group succeeded in curbing diversion when the Hayden-Cartwright Act was passed by Congress. This act, in short, punished states that diverted any more gas taxes with less federal funding.

[49]For more on coupons see Haig and Shoup (1934, 34).

The plan that was finally accepted was a hodge-podge of specific excises. The decision of the Federal government to permit the sale of beverages containing less than 3.2% alcohol content per volume in May 1933 allowed the state to set up an alcohol monopoly and impose a tax that came out to about two cents per bottle of beer. Further excises on cosmetics, horse racing (which was legalized for the purpose), and admissions to events provided revenue but were less lucrative. In order to administer these new taxes several new state agencies–such as a liquor control board–were created. Beyond these necessary agencies, however, Johnson and Friedman (1935) observed a general expansion of state activities in milk, funeral, and barbershop regulation.

The legislature also rolled back one of its most important measures from the 1932 special session: the authorization of diversion of gas and motor license revenues by local governments for relief purposes. Haig and Shoup write that this was an accidental but damaging change in policy.[50] The bill in question, however, was quite clear in stating exactly what it was amending (Ohio House of Representatives 1933, S.B. 61). The road interests seem to have pulled off a small coup without anyone noticing.

The governor concluded that these measures did not guarantee enough revenue and, therefore, called the legislature back for a special session in August of 1933. The special session increased tax levies slightly but failed to take any action to provide a solid revenue source to fund schools.

Several hesitant steps were also taken to begin to reduce the pressure on real estate owners. Perhaps the most significant of these measures was the mortgage moratoria statute. The actual language of this statute is maddeningly baroque but the general idea is that, contingent on the owner's upkeep and payment of taxes on the property, a court could postpone a foreclosure sale for some period of time. Second, the state offered some relief for owners who were delinquent on their mortgages by canceling all penalties on delinquent taxes for the years 1932 and 1933; a measure that was also meant to encourage payment of those taxes. At the same time, though, county treasurers–with the proper permissions–were authorized to act as receivers of income from property that was more than six months delinquent (Wolson 1935, Johnson and Friedman 1935). Thus, while real property owners received some concessions, the State Assembly's acts were by no means a populist giveaway to the people. Local governments still depended on the property levy.

[50] An accident like this is not impossible–legislatures were under great pressure to pass a slew of bills in a relatively short period of time. A hastily-composed amendment to an act may unintentionally repeal certain provisions without anybody noticing. See chapter 2 of Teaford (2002)

4.4 The 1933 Election

1933 was an off-cycle election year but all of the referendums on the ballot had potentially non-trivial effects on state and local government finance. First among these was the tax limitation amendment. The perceived failure of any government to provide adequate property tax relief led the real estate interests to propose a 10-mill constitutional limitation on property taxes. The limitation referendum was proposed and passed by a wide margin in November 1933. The only county with less than 50% in favor was Hamilton County, which contains Cincinnati. Cuyahoga County (Cleveland) had the next least votes in favor–50.5%. It would not be correct to conclude from this that the most enthusiastic support for the amendment came from rural areas. Montgomery (Dayton), Lucas (Toledo), and Summit (Akron) counties were among the top ten counties with the highest margins in favor (Ohio Secretary of State 1934). County-level support for the tax limit is not well-explained by county-level unemployment, either. At this point, then, one can only conclude that support for the tax limit was widespread.

The ten mill limit forced Ohio state and local governments to reevaluate their fiscal position. From 1933 to 1934, the cities, counties, and schools reduced their operating millage by an average of 34.91%, 26.46%, and 55.08%, respectively (Schultz 1935, tables 22, 23). A small number of cities voted to increase millage outside of the limitation but, even where this did occur, the increased millage outside of the limitation generally far from made up for that which was lost. One of the main problems faced by cities was that a large and relatively irreducible portion of the millage they were apportioned under the limit was devoted to debt service. Schultz presents comparisons of millage in Ohio cities for before (1933) and after (1934) the imposition of the limit. The total millage in Ohio cities levied for debt purposes generally neither increased nor decreased more than 20% from 1933 to 1934.

What happened outside of the cities? The Ohio Tax and Revenue Commission (1940, 13). wrote that, "Tax limitation has not seriously restricted the financing of local government in rural communities. It has, however, seriously restricted revenue of municipalities and county governments in urban counties." That is, despite the widespread support for the limitation amendment across both urban and rural parts of the state, rural taxpayers didn't benefit nearly as much as urban taxpayers. The correlations presented in table 8 provide some support for this conclusion. The dependent variables in table 8 are county-level tax indexes (1928=100), which are regressed on county-level urban population shares, support for the tax limit, tax delinquencies, unemployment, and the share of home (or farm) -owning families. The first regression shows that tax rates prior to the tax limit were uncorrelated with any of the independent variables. The third regression suggests that a 10% higher urban population share was associated with a 1.8% decrease in the tax index from 1932 to 1934.

Greater support for the tax limit amendment was also associated with a greater decrease in taxes from 1932 to 1934. Interestingly, greater tax delinquency and unemployment rates were significantly correlated with higher taxes. One interpretation of the the tax delinquency correlation may be that those counties that kept their tax rates at pre-Depression levels experienced higher delinquency rates because the millage on property was not adjusted for falling income.[51]

The state had not levied a property tax since 1931 and, thus, was not directly affected by the tax limit. It did, however, react to the limit by extending greater aid to the local governments in the form of new taxes. One of the reasons why millage for school districts was cut back so much (55%) was that the state had already begun to provide support for education through the cigarette and liquid fuel excises.

A home-rule referendum was passed. Home-rule laws, in general, reduced the control of the state government over cities. Though, in any other decade, this amendment may have resulted in greater decentralization, in 1933 few local governments were not too keen to distance themselves from state.

Prohibition was fully repealed in November 1933; in Ohio the proposal passed by a more than two to one margin. The state extended its beer taxes to all alcohol. In the first half of 1935 alone these taxes raised $14.72m (26.08%) of all state taxes (Ohio Auditor of State 1936). By 1937 the total had risen to $16.4 million.[52]

Finally, voters overwhelmingly approved a state-wide Old-Age Pension scheme. This program was almost identical to Social Security, which would replace the state's program later in the decade. Demand for a state pension fund had been around since at least 1931 but was defeated in each successive legislative session. In 1933, however, voters–the same voters, mind you, that demanded lower property taxes–approved Old Age Pensions by a more than 2:1 margin. The referendum that was passed only provided for the structure of the program, it made no mention of how the program was to be funded. This problem was left to the Governor and General Assembly.

[51]The regressions in table 8 are only meant to be exploratory. More empirical work will need to be done before any causal connections can be posited.

[52]There are conflicting accounts of how these funds were spent but the differing authorities may be referring to different periods. Johnson and Friedman write that the tax was to be earmarked for education but the educational establishment objected to being funded in this way. The tax, therefore, was put in an Old Age Pension fund. Schultz says that proceeds from alcohol taxes were to be redistributed to the counties to finance relief bonds issued by the counties.

4.5 The General Sales Tax

Why did the sales tax finally pass in Ohio? Uncertainty surrounding the tax limit vote had prevented the legislature from taking major action in its first special session of 1933. In the second special session, however, it did act to provide greater funding for the state's schools by passing a one cent liquid fuels tax. Though the base of the tax was slightly larger than that for the gas tax (it included diesel sales, for example), the idea was the same. As such, half a cent was carved out of each of the two gas taxes for road construction and maintenance, leaving the total tax paid at the pump at four cents.

Schools were only one area where greater revenue was needed. The second special session of the General Assembly was called in December 1933 and dragged into December 1934. The Governor, George White, continued to reauthorize the session with new directives. By late November of 1934 he was a lame duck. His bid to become the U.S. Senator for the state had ended in the Democratic primaries when Roosevelt and other Democratic heavyweights endorsed his opponent.

On 20 November he addressed a joint session of the Assembly, laying out the case for the sales tax: Ten million dollars was needed for Old Age Pensions in 1935 and twenty-four million was needed for unemployment relief. Though the counties had been able to issue debt against public utilities taxes, the 1937 and 1938 levies were already encumbered for 1934 relief. Local governments, caught off guard by the 10-mill limit, were in need of more revenues. The recovery was underway but there was still was and would be a great need for relief for years to come.

A graduated retail sales tax would raise roughly $64.5 million, of which $10 million would go towards Old Age pensions, $6 million would go towards relief, and $43.5 would go to the local governments. The liquid fuel tax also needed to be reauthorized to keep the schools running.

The newspapers–or at least some–of them were finally on board. It was now up to the General Assembly to "redeem itself in the eyes of the people, by definite and decisive action."

A sales tax bill was introduced in the House on the same day, November 20, 1934. Two days later it was passed 75-25 (Ohio House of Representatives 1933, 472-476).

The sales tax was considered by commentators and politicians to be the only viable option available to them. Carlton Dargusch (1935), vice-chairman of the state tax commission, wrote that the sales tax was adopted because it produced large amounts of revenue and could begin to be collected immediately. Both experts and the public were well aware that the tax was regressive and that it may drive some business out of the state. These downsides, however, were outweighed by the need for revenues.

The tax itself exempted all purchases of less than eight cents and then increased gradually

to 3% for all purchases greater than one dollar. Total revenues from the tax never reached the Governor's hoped-for $60 million. Collections totaled $45, $56, and $49 million in 1935, 1936, and 1937, respectively. Approximately 34% went to public schools, another 32% went to cities and counties, 13% went towards direct relief, and 17% went towards Old Age Pensions (395 Ohio Tax and Revenue Commission 1940, Schultz 1935, 122-123).

The sales tax was the last major revenue measure passed at the state level during the Depression. While revenues were never as large as hoped, the year-to-year growth of tax collections meant that the state was able to continue to grow its services. Arguably the most important areas of state expansion were in school finance and social insurance. We now circle back to these subjects to examine how they changed during the Depression.

5 From Centralized Revenues to Centralized Expenditures

Property taxes were important sources of revenue only because local governments were responsible for carrying out and financing local government. Taxpayers wanted local governments–and not the state–to carry out these functions because they preferred local control. When the state began to collect revenues for these functions, however, the question of how the new revenues ought to be distributed arose immediately. While it was easy enough for the state to simply return revenues collected in a given taxing unit to the local governments, it was necessary to determine which local government–school district, city, township, or county–would receive the revenue. Centralized collection of taxes also made it appealing to begin to undertake some form of equalization. Self-proclaimed social progressives had long advocated a greater state role in government as a means of equalizing access to public goods and to "rationalize" their administration. The reorganization of the Ohio revenue system provided a rare opportunity to implement policies that did just that.

5.1 School Finance

Two objectives occupied school advocates during the thirties. First, they wanted to maintain school funding levels at their pre-Depression levels. Though the public schools suffered through several years of shrinking budgets, this objective was largely accomplished by late 1934 when the liquid fuel and sales taxes were adopted. The second objective was to equalize educational resources across the state. This was achieved when the General Assembly passed the School Foundation Program in 1935. The effect of these efforts was to centralize the collection and distribution of funds for public schools. The share of education

revenues provided by the state rose from 5% in 1930 to 56.1% in 1936.[53]

During the first few years of the Depression, the number of districts that applied for state aid increased and more revenues were appropriated for the program. Schools were in fiscal trouble for all of the familiar reasons: falling property valuations, the ten-mill limit, onerous debt obligations, and (maybe less obviously) the classification law.[54] Holy and McKnight also argue that there was a growing belief that school funding should be a state function. They cite the report of the Ohio School Survey Commission, released in late 1932, as a major spur to education finance reform. The research staff of the Commission was directed by Paul Mort, a leading school finance specialist from Columbia's Teachers College–the center of the school finance equalization movement. The Commission's proposed $40 per pupil foundation program would have more than doubled the state's 1932 appropriation for education, an already-record year in education appropriations.[55] It was, according to education reformers, by no means a "radical" program when compared to those enacted in New York, North Carolina, or Delaware, however (The Ohio School Survey Commission 1932). Though widely discussed, the education bill proposed by the commission was ultimately set aside by the General Assembly.

By 1935, however, the state's appropriation for schools was about equal to that required for the Commission's plan, an expansion that was fueled by the haphazardly-imposed cigarette, liquid fuel, and general sales taxes. In effect, the state was providing no-strings-attached grants to the school districts. In a situation like this, it seemed prudent rather than overbearing for the state to increase its control over school functions and finance.

The School Foundation Program Act of 1935 represented a compromise between, on the one hand, providing state funds based on average daily attendance and, on the other, providing complete equalization for schools. A flat, per pupil grant would probably be favored by wealthier districts, which could then supplement this aid with local funds. The equalization program favored districts in poorer areas, which would receive much more per pupil if their revenue-raising ability was taken into account.

The Foundation Program that was finally agreed upon operated as follows: First, the state set a minimum cost per pupil based on the pupil's grade-level. The district's minimum foundation was computed by summing this cost over all students in the district. Then, the state provided a flat grant for each student in the district that was below the minimum cost. The district itself was required to levy at least 3 mills for school operating expenses and the entire 10 mills of "free" millage under the tax limit had to be exhausted. If the total of the

[53]The following discussion is based on Holy and McKnight (1937)

[54]Classification exempted intangibles from the general property levy. Though this property was taxed by other means, these revenues could not be accessed by the school districts.

[55]See below.

state's flat grant and the local levy exceeded the district's foundation, no further actions was taken. If the flat grant and local levy were less than the district's foundation, the state provided equalizing funds to make up for the difference.[56]

One area of confusion arising from the Foundation Program was a clause that guaranteed school districts two-thirds of the average millage of the district for the five years prior to the Act was passed. If all of the millage rates of all local taxing authorities were reduced by two-thirds but the sum of the millage was excess of the 10-mill limit, then the school district was guaranteed 4.5 mills under the levy. During 1935 this led to a great deal of confusion and anger because, after all, the schools had just been guaranteed an enviable amount of state money.[57] The Ohio Secretary of State, however, ruled that the schools were required to receive the full amount of millage guaranteed in the Act only if they explicitly requested that the County Apportionment Board do so. Crisis averted.

The second problem with the Foundation Program concerned revenues. Portions of the sales, liquid fuel, cigarette, and intangible taxes were earmarked for the schools. By 1936, though, the cigarette tax was mostly set aside for servicing school debt issued earlier in the decade. Without this source of revenue, the Foundation Program was already running a 12% deficit in 1936. The exemption of food from the tax in 1936 made matters worse. Holy and McKnight estimated that this would reduce state equalization revenues by $10 million, or about 20%. Total revenues for schools fell 18% from 1936 to 1938. To cover these deficits, over three years (1936-1938) the state accumulated $14 million in deficits, or about 9.7% of the total spent on the Program during those years (Ohio Tax and Revenue Commission 1940, 28-33).

The Act did expand the ability of the state Department of Education to pressure school districts to consolidate. All schools of less than 180 pupils were required to be approved by the Department in order to receive funding from the Foundation Program. In 1936 alone, 138 school districts, five-hundred one-room schoolhouses, and fifty high schools were consolidated. Consolidation, of course, enabled economies of scale. It also increased the area that a district or school could draw on for local funding. The state's guaranteed grant per pupil fell as enrollment rose. Thus, the program seems to have encouraged economy and–arguably–reduced local autonomy. The Ohio Tax and Revenue Commission pointed out, however, that, under the Foundation Program, districts that had previously relied on state

[56]Note that the Ohio Foundation program was not a foundation program in the traditional sense. Foundation programs generally omit the initial flat grant and, instead, make up the difference between locally-collected revenues and the foundation minimum. Foundation programs were first proposed by Robert Haig and George Strayer in 1923 and were quickly adopted by the education establishment as a policy goal. Hoxby (2001) discusses the incentive schemes inherent in different school equalization programs.

[57]On this topic, see chapter IV of Schultz (1935).

aid for capital expenditures were unable to maintain their physical plants–the foundation program included no provision for these items.

By the end of the Depression, then, the state was providing the majority of school revenues in the state. As was the case during the pre-Foundation Program era, however, a non-trivial percentage of school expenditures were financed by debt (though the debt was issued by the state rather than the school districts). On paper, the Program was one of the most progressive in the nation. It not only distributed funds equally across the state regardless of wealth, it also made it easier to rationalize the organization of schools and school districts. It did reduce local control over schools and made it more difficult for districts in low-income areas to maintain their facilities, though.

5.2 Unemployment Relief and Old Age Pensions

The pre-Depression system of local and private relief allowed the state government to stay out of that business during the first three years of the Depression. As we saw in section 4, however, the state did undertake several fiscal measures–the authorization of gas tax diversion, the public utility tax, and so on–in an attempt to maintain the solvency of local governments in the face of increasing demand for relief. These measures largely proved to be insufficient but, before any further action could be taken, the New Deal was enacted. Though many Ohio politicians were against the New Deal, it did reduce the pressure on local governments to provide relief. In the latter part of the Depression, the vast majority of relief funds in the state were provided and administered by the national government. The primary side-effect of this arrangement was that the state government ended up providing direct relief to those cases (i.e. family units) that lacked a member who could be enrolled in one of the work-relief programs. Thus, while the state government was able to avoid becoming the primary administrator of relief in the state, it did, by dint of its relative fiscal strength, end up taking on a larger–if secondary role–in relief provision. First, however, it is informative to consider the response of the local relief apparatus at the beginning of the Depression.

From 1929 to 1931 local expenditures for relief increased 45%. Sixty percent of this increase occurred in the cities but the counties still provided 58% of all relief funds (The Ohio Commission on Unemployment Insurance 1932, 116, table 3). Given the provisions of the Poor Law, this is exactly what one would expect; the cities were tasked with aiding otherwise independent people while the counties took on chronic cases.[58] While expenditures for "charity and correction" were only 1.4% of the total budget of cities in 1929, they

[58] In practice, the townships tended to focus on healthcare and burial and, therefore, were not as important as providers of relief during the Depression. See section 2.1.2.

consumed more than 10% of the budget in 1932. The counties did expand their aid in certain areas–especially for Soldier's Relief and in the ambiguous "other" category–but they were not, in principle, responsible for aiding the unemployed. The "charity and correction" appropriations category for counties did grow from 16% in 1929 to 29% in 1932, however (Schultz 1935, 15, 23). Thus, while counties played a large role in relief, the greater budget shock was felt in the cities.

Though the Pringle-Roberts Act permitted the counties to issue debt funded by the 1% utilities tax, they did not respond to the Act's passage by issuing large amounts of debt. The counties took the long view: those funds would probably be needed in later years and, therefore, it would not be wise to use them right away. Even so, by 1931 local government resources were stretched to the point where the funds they could provide to individuals were barely providing any relief at all. Though more funds were being made available for relief, the growth in expenditures was far outpaced by growth in the number of relief cases. At the state level, the total number of citizens on relief peaked in January 1935 at 1.2 million people, or 18% of the total population. The Ohio Commission on Unemployment Insurance (1932, 126) concluded in 1932 that, "there has been a complete breakdown in the majority of communities, even in the large cities, in the provision of relief in accordance with the need of the individual." Local relief efforts, moreover, often lacked coherence. The county may provide a given monthly sum for relief but to acquire clothing for one's children it might be necessary to appeal to the school and to get milk one might need to go to the Rotary Club. Through the New Deal, the national government sought to provide adequate, well-ordered relief to those in need.

The Federal Emergency Relief Administration (FERA) was established in 1933 and, with it, funds from Washington D.C. began to flow into the state.[59] In that year alone the federal government provided more than half of all emergency relief funds in the state. Fifty percent of FERA funding was based on state and local matching aid. Thus, there was some pressure on the state government to increase its relief efforts. State politicians, however, were not terribly keen on taking a major role in relief; that was a job for the local governments.

Though both of Ohio's New Deal-era governors were Democrats, they were not New Dealers.[60] George White (1931-1935) slashed the state's budget nearly in half in 1932 to avoid a deficit. Martin Davey (1935-1939), his successor, was opposed to centralized aid provision and, with the help of Republicans in the General Assembly, dismantled the State

[59]On the operations of FERA and the politics surrounding it see, Wallis (1991, 1984) and Patterson (1969).

[60]Myers Young Cooper, Ohio Governor from 1929 to 1931, was said to have lost in his reelection bid because he did not respond to the Depression with greater state aid. It is, however, difficult to square this explanation with the legislative narrative presented here or the actions of his successor.

Relief Commission in 1935. Davey also publicly charged Harry Hopkins, head of FERA, with corruption and issued a warrant for his arrest. Hopkins shot back, charging Davey and his allies with corruption. Though the rhetoric was purely political, there is some evidence that the charges on either side were not without merit. In March 1936, Hopkins federalized the administration of FERA relief in Ohio. Though it was a drastic administrative move, its fiscal impact was negligible. Hopkins was able to force the state to continue to pay its Federally-mandated share of aid both before and after FERA federalization by threatening to cut off Federal funding altogether.[61] Federal pressure, then, did play some role in inducing the state to take a larger role in relief provision. While many politicians were against the New Deal, it was probably too politically costly to pass up "free money."

Beginning around 1935 the focus of the New Deal shifted from direct relief programs like FERA to work-relief programs like the Works Progress Administration. While the national government was prepared to finance the work-relief programs in full, it fell to the state and local governments to provide for the relief cases that had no employable member or whose employable members could not fund relief work. In Ohio, the former group accounted for about 55,000–or 17%–of all cases. Though there was no directive stating that relief provision was a state function, in Ohio the state did assume responsibility for unemployable relief cases. Schultz (1935) cites two reasons for how this came about. First, New Deal administrators did indicate that more funds would be funneled to localities that supplied material for relief work. While there appears to be no information indicating how common this was, it shows that local governments could have *potentially* provided relief funds indirectly and, thus, be less able to provide for unemployable relief cases. The second (and more important) cause was that local governments had few funds available for relief in the first place. Voters were reluctant to permit local governments to issue bonds for relief and the 10-mill limit prevented higher taxes. Thus, state-specific factors–not the national government–caused the state government to become a major provider of relief.

On average, the state spent about $30m per year on aid from 1937-1940 (E.G. Livesay 1941). In terms of total state revenues, in 1935 (the closest available year for which expenditure figures are available), $30 million was about 17.39% of total expenditures. So, while the state was directly spending a relatively large share of its revenues on relief, it was by no means consuming all of the state's revenue.

A final item to take up is the Old Age Pensions Program which, as we have seen, was passed as a referendum measure in 1933, not at the behest of the national government. It then fell to the 1934 General Assembly to fund the program, which was begun in July 1934.

[61] See Patterson (1969, 60-62) and Vazzano (1987) for discussion of the politics of Ohio relief. Bartlett (1936) describes FERA relief in federally-administered states.

It did so by drawing first on general fund revenues and then on sales tax revenues. After a year of operation, the number of pensioners reached 81,000. The cost of the program soon rose several million dollars above advocates' projections. By late 1935 the program was running out of funds.[62] The state Old Age Pension Program, however, only pre-dated Social Security by a few years. A few small tweaks–most notably the residence requirement–had to be made to the state program in order for it to begin to receive federal money. So, just as in the case of the school foundation program, the Old Age Pension Program was (in some sense) necessary even if the timing of its enactment was not.

The centralization of school finance and poor relief had immediate effects on the provisions of these services. Local communities, besides losing much of their control over the level of funding for public goods, were also required to conform to several conditions in order to receive funding. The School Foundation Program required that school districts present reorganization plans each year with the goal of eliminating small schools and school districts. School curricula and administrative standards were also expanded (Holy and McKnight 1937, 42ff.). The Depression marked a major shift in the level of government at which unemployment relief and other social insurance programs were administered. In this case, the state government's policies had the effect of shifting the unit of direct relief administration from the municipal to the county level. The national government, in turn, played some role in getting the state government to play a more active role in aid provision. This development upended long-standing private charity and local government relief institutions. Recent estimates suggest that increases in state and national government relief expenditures were responsible for almost all of the decline in faith-based charity during the thirties (Gruber and Hungerman 2007). These changes were not accidental–different factions had been advocating for them for years. They were, however, incidental in the sense that they only became possible when the fiscal distress wrought by the Depression made it necessary to reconfigure the structure of governmental finance.

6 Conclusion

The growth of the state government in Ohio and elsewhere during the thirties is unrivaled by any other period in American history. By the end of the decade, the state government collected 45% of all state and local revenues in Ohio, a 300% increase from the beginning of the decade. Sections 4 and 5 made the case that the primary causes of this centralization were the Depression-induced fiscal crises faced by local governments and individual taxpayers. The New Deal matching fund requirement did play some role in this process. It was, however,

[62] Further extensions of various levies, it seems, were made to ensure that this did not occur.

only one of several reasons the state began to raise funds for relief and constituted a relatively small share of the total increase in state tax collections and expenditures during this period.

Critics of the early response of state governments during the Depression oftentimes caricature state politicians as unfeeling people who went around telling the unemployed to pull themselves up by their bootstraps. This, no doubt, happened but it doesn't do justice to the dilemmas faced by voters and politicians. The state government surely could and did relieve the tax burden of property owners and provide relief to the unemployed. In order to do so, however, it had to impose the sales tax, which was more or less paid by the same people it was meant to relieve. The state and local governments could not simply issue more bonds; many were already in default. The state's new taxes and responsibilities, moreover, had the effect of marginalizing local governments.

Voters and politicians recognized these problems. They also recognized that, if centralization were to occur, it was unlikely that it would be rolled back. It was by no means evident that centralized government was any better or worse than the preexisting system of local government dominance. It is perhaps best, then, to view the changes that brought about centralization–tax limits, the sales tax, the School Foundation Program, and so on–as juggling acts undertaken as last ditch efforts to avoid individual and governmental insolvency.

It does not appear that centralization solved many of the basic structural problems that characterized the period of local government dominance. State tax commissions were convened in 1939 and 1947 in order to examine the dire fiscal situation of the state government and its lamentable dependence on the regressive sales tax.[63] Centralization did fundamentally alter the nature of government, though. Education finance and welfare were now state functions and, thus, their level of funding and nature were subject to the preferences of the state as a whole rather than the localities. The states' newfound prominence also opened the door to more expansion. Once the the new revenue and administrative institutions were in place, it was only pragmatic–and politically convenient–to continue to carry out these functions as well as any new functions related to them. In the post-war period centralization did continue, albeit at a slower rate.

In order to set down this path, though, prior institutions and assumptions surrounding those institutions had to be abolished. Here, we have shown that the Great Depression was the shock that did just that. By pushing local governments and taxpayers to the brink of insolvency, it forced them to accept and even advocate for new policies and institutions that were otherwise unacceptable. This bargain that was struck–solvency for centralization–was all about the needs of a single moment. Contemporary voters and politicians recognized this and, thus, entered it cautiously. Conditions became bad enough, however, that full-tilt

[63]See Ohio Tax and Revenue Commission (1940) and Ohio Tax Commissioner (1947)

centralization became necessary. This largely irreversible decision, then, was a side-effect of the needs of a moment. A side-effect, no less, whose consequences persist to this day.

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Table 1: State's Share of Total State and Local Revenues (%)

Year	Ohio		National Average	
	State Share	Change State Share	State Share	Change State Share Share
1913	11.00		19.64	
1932	15.58	4.58	30.86	11.22
1942	45.67	30.09	47.10	16.24

Computed from Sylla, Legler, Wallis (1993).

Table 2: "The Increase in Public Debts"

Year	Counties	Schools	Cities	Total
1900	10,521,247	7,153,895	77,299,433	96,193,513
1910	26,979,085	16,949,729	147,174,234	187,574,322
1915	56,074,442	48,707,647	223,293,549	356,928,968
1920	77,096,116	100,152,287	288,969,519	510,266,465

"The Increase in Public Debts" From Wilcox (1922, 52)

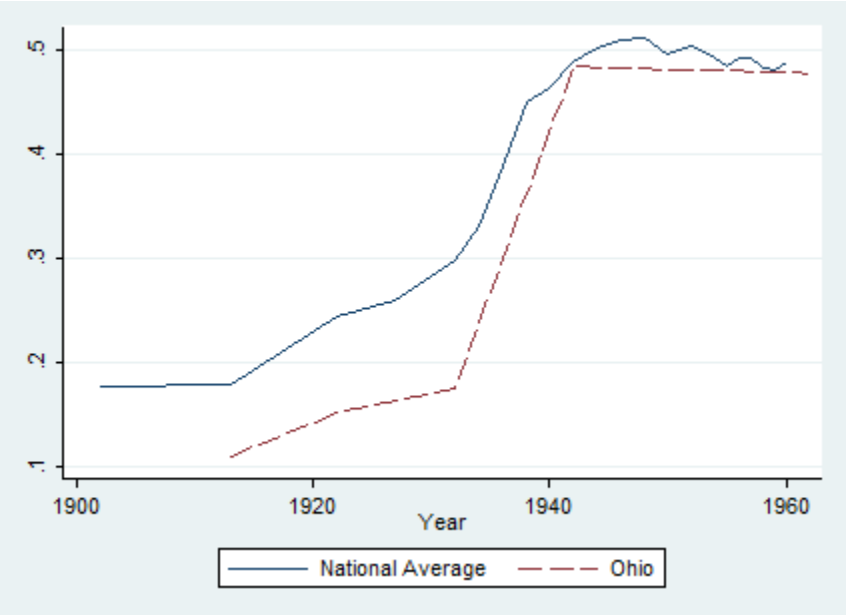

Figure 1: State's Share of Total State and Local Revenues Ohio Data: Sylla, Legler, Wallis (1993). National Data: Carter et al. (2006, Ea1-583).

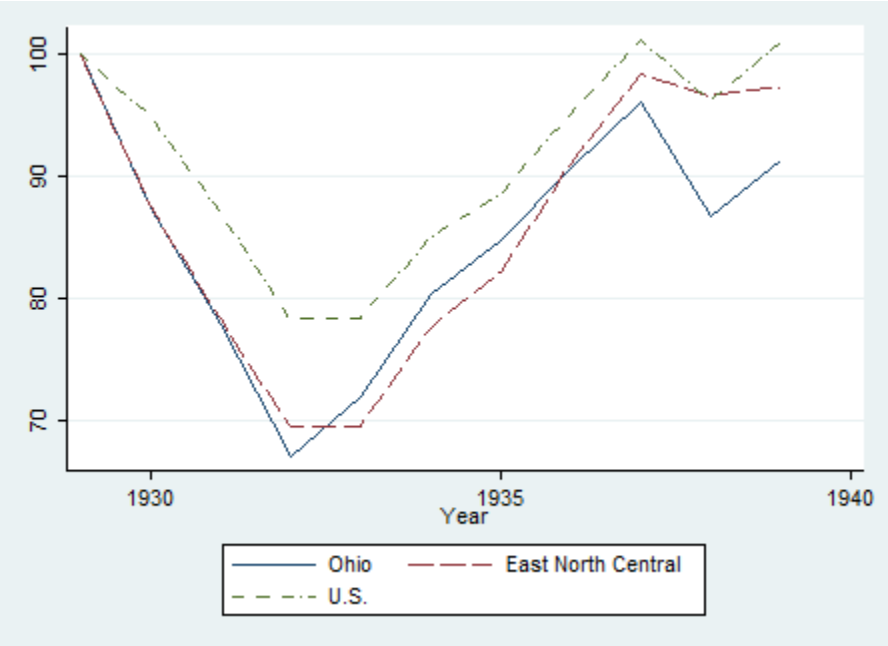

Figure 2: Employment Index, 1929-1940. Wallis (1989). 1929=100. East North Central Region: Illinois, Indiana, Michigan, Ohio, Wisconsin.

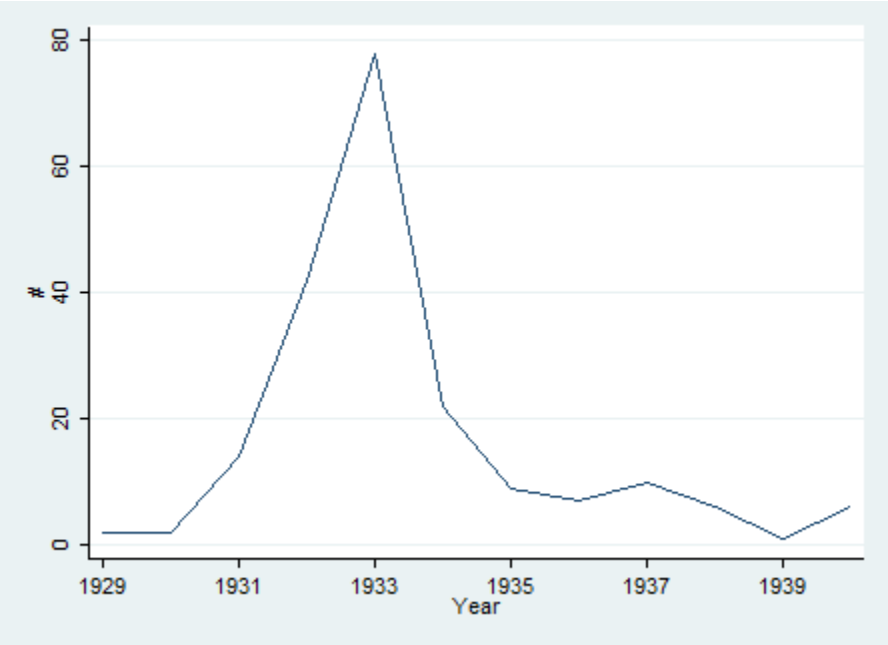

Figure 3: Yearly Local Government Defaults, Ohio, 1929-1940 Kroll BondRatings (2011)

Table 3: Per Capita Average Debt of Local Governments Less Sinking Fund Assets, 1912 and 1922.

State	1912	1922	% Change
Ohio	47.23	107.20	226.97
Tax Limitation States			
Michigan	18.02	80.40	446.17
Georgia	9.36	19.74	210.89
Oklahoma	10.71	59.48	555.36
Neighboring States			
Indiana	29.93	50.43	168.49
Kentucky	10.95	17.51	159.90
Comparative States			
New York	107.71	140.63	130.56
Wisconsin	15.63	38.00	243.12

U.S. Census Bureau *Wealth Debt and Taxation* 1922, Table 3, pp. 20-80.

Table 4: Farming Summary Statistics

	Mean	SD	Min	Max	Ohio
% Acres Owned	35.59	19.16	13.15	72.08	40.28
% Acres Part Owned	51.06	15.88	29.53	80.28	51.06
($)Value per Acre Cropland	122.28	106.41	29.35	354.73	91.59
% Farms Foreclosed 1933	40.04	21.35	7.1	78	31

States included: MA, CT, OH, TX, CA ND, SD, MN, MT, MS, GA.

Foreclosure rates: Alston (1983). Data other than foreclosures from Haines (2004).

Table 5: Farm Foreclosure Correlations

	Total Acres	% Acres Owned	% Acres Part Owned	Value per Acre Cropland	% Farms Foreclosed 1933
% Acres Owned	-0.5208 [0.1004]				
% Acres Part Owned	-0.5149 [0.1051]	0.8290 [0.0016]			
Value per Acre Cropland	-0.2968 [0.3754]	0.5084 [0.1103]	0.6011 [0.0505]		
% Farms Foreclosed 1933	0.1970 [0.5614]	-0.8411 [0.0012]	-0.5723 [0.0658]	-0.5702 [0.0670]	
Avg. Farm Acres	0.3772 [0.2528]	-0.6648 [0.0256]	-0.1691 [0.6192]	-0.2507 [0.4571]	0.7011 [0.0162]

Sources: see table 4. p values in bars.

Table 6: County Revenue Receipts, 1929-1934 (thousands)

	1929	1930	1931	1932	1933	1934
Total Revenues	94,581	99,190	89,841	77,358	77,922	100,236
Public Service Enterprises	73	185	82	92	76	75
Total Taxes	68,404	71,744	67,901	59,637	50,054	57171
Property Taxes	61,611	64,106	60,061	-	35,444	40,567
Cigarette Taxes	97	119	132	-	132	162
Motor Vehicle Taxes	1,820	1,800	1712	-	9,475	10725
Gasoline Taxes	4,813	5,718	5,995	-	4,905	4,356
Other Taxes	61	-	0.3	-	95	1360
Non-tax Income	26,103	27,260	21,857	17,628	27,792	42,989

Source: Schultz (1935), Table 3. Original from *Reports of the Auditor of State*.

Table 7: Tax Index Summary Statistics

	Mean	Std. Dev.	Min	Max
Tax Index 1932	79.83955	10.21406	50.79	116.63
Tax Index 1934	55.6742	9.02245	32.87	89.85
Change Tax Index 1932-1934	-30.2184	7.084104	-48.4346	-12.88676
% Urban 1930	38.04181	24.93054	0	97.03901
% Tax Limit Vote	61.43941	6.384929	41.93957	77.4090
% Taxes Delinquent 1932	17.09091	9.027272	1	42.5
% Unemployment 1930	1.458891	.7584969	.163788	3.891615
% Owner Families	61.50438	6.882742	41.76756	74.2901

Sources: See Table 8.

Table 8: Effects of Urban Populations and Tax Delinquency on Tax Collections

	Tax Index 1932	Tax Index 1934	Tax Change 1932-1934
% Urban 1930	0.1299	-0.0782	-0.1894
	(1.56)	(-1.13)	(-2.87)**
% Tax Limit Vote	-0.1103	-0.4174	-0.3804
	(-0.60)	(-3.17)**	(-2.64)**
% Taxes Delinquent 1932	-0.0703	0.3434	0.4671
	(-0.47)	(2.22)*	(3.60)**
% Unemployment 1930	0.7190	4.36	4.17
	(0.38)	(2.65)**	(2.10)*
% Owner Families	-0.1321	-0.3466	-0.2842
	(-0.63)	(-2.00)*	(-1.77)
R^2	0.3256	0.68	0.57
N	88	88	88

* $p < 0.05$; ** $p < 0$. Robust standard errors in parentheses. Observations weighted by county total population. Sources: Tax Index: Schultz (1935, 157). Urban Population, unemployment: Haines (2004) Tax limit Vote: Ohio Secretary of State (1934). Tax Delinquencies: Division of Real Estate Taxation (n.d.)