

Foreword

THIS monograph, like other reports published as the Institute's series of Papers, deals with the impact of the war on the South, and presents an interpretation of the facts in an important segment of social science.

Incident to Mr. Martin's study Miss Vera Briscoe and Mr. Glenn D. Morrow, Research Assistants in the University of Kentucky Bureau of Business Research, contributed heavily toward preparation of statistical tables and charts on which the text is largely based. This clerical and professional work was supported in part by the Vanderbilt Institute and in part by the Kentucky Bureau. Misses Lucia Peterson and Henrietta Moore assisted in finishing the manuscript. Professor John Van Sickle of Vanderbilt read critically an early draft of the manuscript. Both agencies express thanks to these colleagues. They are grateful, too, to Dr. E. R. Gray of the United States Bureau of the Census, who gave the author exceptional assistance.

Neither the Institute of Research and Training in the Social Sciences nor the University of Kentucky Bureau of Business Research sponsors an action program. Neither endorses any opinion expressed in this essay. Both agencies are educational in the broadest sense—they seek to lay before thoughtful persons matters worthy of their consideration.

THE EDITORS

TABLE OF CONTENTS

	Page
INTRODUCTION	3
I. STATE AND LOCAL REVENUE	5
Property Taxation	6
Motor Vehicle and Related Taxes	10
Death and Income Taxes	13
Sales Taxes	15
Business Taxes	19
Unemployment Compensation Taxes	19
County Revenues	20
City Revenues	21
Changes in Tax Administration	22
II. STATE AND LOCAL EXPENDITURES	29
Nation-wide Trends in State and Local Expenditures	29
State Expenditures	30
City Expenditures	34
County and Other Local Government Expenditures	37
III. TRENDS IN INTERGOVERNMENTAL FISCAL RELATIONSHIPS	39
The Evolution of Financial Aid	40
State Responsibility for Local Debt	43
Intergovernmental Fiscal Organization	45
VI. STATE AND LOCAL DEBT	48
The State and Local Debt Picture	48
Evolution of Southern State and Local Debt	49
The Debt Load	51
Southern Wartime State Debt	53
Local Net Long-term Debt during the War	54
V. GENERAL FISCAL ADMINISTRATION IN THE SOUTH	55
Development of Budgeting	55
Budgeting in Wartime	60
Accounting in Evolution	66
Development of Purchasing Administration	71
Wartime Purchasing	74
Public Debt Management	76
The Postaudit	82
TABLES SHOWING BASIC FACTS	86
APPENDIX. THE RELIABILITY OF STATISTICAL DATA WHICH FORM THE BASIS OF THIS REPORT	101

Southern State and Local Finance Trends and the War

By JAMES W. MARTIN, Director
Bureau of Business Research, University of Kentucky

INTRODUCTION

From available information it is impracticable to isolate southern¹ fiscal changes which the war has caused. Desirable as such an analysis would be, the nearest approach is perhaps an examination of the facts in the light of antecedent trends. Some changes are consequences of war conditions, some an outgrowth of forces that have been operating for many years. In the discussion which follows, the behavior of state and local finance is to be attributed directly to war conditions only to the extent expressly stated or implied by the facts. Even such explicit or implicit conclusions must be provisional.

The war period is not defined identically for all purposes.² Indeed, for purposes of analyzing the public finances there is some question respecting the propriety of all possible beginning points. For instance, federal expenditures for war purposes increased almost 50 per cent in the fiscal year 1940 as compared with 1939. In 1941 the level was approximately five times that of 1939. Clearly the federal preparedness program is reflected to a considerable extent in the period ending June 30, 1940, and notably in that closing one year later. Meantime,

¹ The words "southern" and "the South" refer, except as otherwise noted, to the states south of the Potomac and Ohio Rivers and of the northern boundaries of Arkansas and Oklahoma. The "South" does not include for purposes of this discussion the states of Maryland or of New Mexico and Arizona.

² So it is in some measure with the date at which the intensive background begins. The statistical difficulties are examined in an appendix. The reader who wishes to understand the limitations which available data impose on the explanation of textual comparisons should read that discussion. The general reader will find the text adequate.

indirectly at first and more pointedly later on, the European demand for American war service commodities got under way in 1940 and became far-reaching before July 1, 1941. Neither the early changes in federal fiscal affairs nor the acceleration of industrial production directly affected southern state and local finances. Indirectly, they were of considerable fiscal significance for all states and their local subdivisions.

The general upswing of business, enhanced by increased federal expenditures and by factors inherent in the European war situation, led to increasing the yield of several state and local taxes. The impetus of war industry became greater after the autumn of 1939. The federal fiscal pressure was not substantial until after July, 1940.

It was not until the calendar year 1941, moreover, that the United States undertook any significant rationing plan as a defense measure; consequently, the growing restrictions on state and local expenditures because of war changes in the labor and materials markets did not become noticeable prior to the fiscal year 1941. They were not serious until the following financial period.

If, in the light of these and minor factors influencing state and local finances, one must specify a period which may be designated as the "beginning of the war period in state and local finances," the fiscal year ending June 30, 1941 should perhaps be the time designated. This essay, then, will seek to define antecedent government finance trends and to examine variations from them during the war period.

I

STATE AND LOCAL REVENUE

In analyzing the background of southern state and local war-time revenue, one must study general revenue tendencies. Federal revenue collections fell sharply after World War I, while state and local collections in the South and in other regions rose rapidly until the early 1930's. Subsequently, federal revenue receipts went up swiftly; state receipts, after a period of recession, continued the upward trend; and local collections in the aggregate remained almost stable. Moreover, as the most fundamental shifts in statistical data reflecting revenue policy occurred in *state*, not *local*, governments, an over-all examination of state trends, for which information is relatively adequate, should throw considerable light on changes between World War I and World War II.³

The rate of increase in total revenues in southern states between wars was greater than for the whole country, but the upswing did not occur evenly throughout the South. For example, in the five years 1922 to 1927 Arkansas much more than doubled collections, while Alabama showed an advance of only about a third. In the following 13 years, though most southern states tripled the 1927 total revenues, Arkansas and Virginia merely doubled. The bulk of the revenue advance during the period between wars was achieved through taxation, but the extent to which individual state increases were due to greater non-tax revenues varied widely.

A factor which tends to make the gross figures for individual states somewhat misleading in the difference in rates of population increase in the various southern states. Eliminating this

³ In reading the data, it is important to keep in mind that no adjustments for changes in price level have been made. Summary statistics are tabulated beginning at page 86. See Tables 1 and 2.

particular source of error, one finds significantly that all states having especially low per capita total revenue also have a relatively large Negro population.⁴

The war brought about a marked increase in state revenues. In general, since 1938 there has been a continuing upward trend in southern state tax collections. With the war period this upswing became marked; and there was no leveling off in most states until about the calendar year 1943. If the tax revenues be compared in terms of purchasing power⁵ instead of current dollars, it is found that in the southern states as a whole there has been a year-by-year decline since 1940. The majority of these states east of the Mississippi River, however, did not experience this reversal until 1941 or later.

PROPERTY TAXATION

*State and local*⁶

Perhaps the most impressive fiscal development during the decades of the 1920's and 1930's was the reduction in the relative importance of the property tax. From 1922 to 1932 although the *amount* of property tax collections increased materially, the ratio of such revenues to the total from all state and local sources fell off considerably. During the next decade both the absolute and the relative importance of the property tax declined in the South much more rapidly than in the country generally.

By 1941 the southern states had thrown off the property tax yoke to a greater extent than had the average of all states. Only Texas, among the former, showed a ratio of property tax to all revenues as high as the national average; and the Texas per-

⁴ Interesting analysis of some aspects of the racial composition of southern population in seven states is found in National Resources Planning Board, *Regional Planning, Part XI, The Southeast*, 1942, pp. 26 ff.; cf. also John Van Sickle, *Planning for the South*, Nashville: Vanderbilt University Press, 1943, chap. 3.

⁵ Computed from Census data and *Survey of Current Business*, 1942 Supp., p. 29, Feb., 1943, pp. 4-5; and *Monthly Labor Review*, Feb., 1944, pp. 424-425.

⁶ See Table 3.

centage was only a trifle above that for the United States as a whole. The relatively low *local* dependence on the property tax explains the South's differential; a majority of southern *state* governments show property tax collections per capita above the national average. The rate of decline in proportion of total revenue derived from property taxation from 1932, although on a state basis practically the same in the South as in the whole country, was very much more pronounced for local government in the southern than in other states.

State

All except two or three of the southern states made severe depression cuts in property taxes. South Carolina, which appears not to have done so, subsequently effected a material reduction. These absolute reductions seem to have resulted from a variety of factors, among which are the following: (a) the depression of the early 1930's, which reduced land rentals materially and thereby influenced apparent property tax paying capacity; (b) the depression in combination with other factors, which strengthened certain pressure groups averse to property taxation; (c) the view that property taxation occupied too large a *relative* position in the state-and-local tax picture and that direct reduction of rates was one method whereby the readjustment could be effected; (d) the dissatisfaction with assessment and collection practice which promoted a consciousness of inequities in property tax practice; (e) the inadequacy of the property tax in application to particular classes of property, notably intangibles, which afforded property interests a talking point; (f) the scarcity of local revenues, which stimulated a demand that states discontinue or greatly reduce their dependence on the property tax; (g) the impression that the property tax bore with undue weight on small home owners and the consequent adoption of homestead exemptions and over-all rate limitations; (h) the exemption of newly established indus-

trial plants to encourage their location in the South; and (i) the public failure to appreciate the relative revenue significance of the property tax.⁷

Both the force of reduced collections operating on the numerator of the fraction and the force of increasing other taxes operating on the denominator tend to cut the proportion of total revenue which comes from state property taxes.⁸

From the outbreak of the war property tax revenues collected by the states have been declining precipitately at the outset and since 1941 more slowly. The relative change in the South is

⁷ Among the documents and studies sustaining the view expressed in this paragraph are: Institute for Government Research, *Report of a Survey of the Organization and Administration of the State and County Government of Alabama*, Vol. 4, Part 3, chap. 45; Carl M. Clark, *Rural Property Tax Problems in Alabama*, Alabama Agricultural Experiment Station Bulletin 247, especially fig. 4, p. 11; *Report of the Arkansas Commission on Business Laws and Taxation*, 1929, especially pp. 152 ff.; *Report of the Special Committee on Taxation and the Public Debt in Florida*, 1935, chap. 5; Orville A. Park, *The Tax Problem in Georgia and Some Suggestions for its Solution*, Macon: Author, 1935; Lloyd B. Raisty, *Homestead Exemption Problems in Georgia*, Athens: University of Georgia, 1939; Citizens' Fact Finding Movement of Georgia, *Tax System*, Atlanta, 1940; Efficiency Commission of Kentucky, *Revenue and Taxation*, Frankfort, 1923, especially chaps. 1 and 2; James W. Martin and George W. Patton, *Operation of the Real Estate Tax in Lexington, Kentucky*, Lexington: Bureau of Business Research, University of Kentucky, 1932; James W. Martin, *An Immediate Tax Program for the State of Kentucky*, Lexington: Bureau of Business Research, University of Kentucky, pp. 9 ff.; R. L. Thompson, *Louisiana Farm Taxes*, Louisiana Agricultural Experiment Station Bulletin 231, Part 3, 1933; *Report of Tax Study Committee of the Mississippi House of Representatives created by the 1940 Session* (n.d., but apparently a report to the 1942 House), pp. 4 ff.; *Report of the Department of Tax Research, North Carolina*, 1942, pp. 45-69 (analytical and historical study of state experience after adjustment) and 265 ff. (analysis of local experience after adjustment); Brookings Institution, *Report on Oklahoma's Revenue System*, especially chaps. 29, 30, 32, and 33 (of fifth part of the study of the state's government); G. H. Aull, *Taxation and Ability to Pay in South Carolina*, South Carolina Agricultural Experiment Station Bulletin 286, 1932; *Report of Tax Commission to Governor Henry H. Horton* (Tenn.), (n.d. but apparently 1928); Frank W. Prescott, *Assessment and Equalization of Taxes in Tennessee*, Chattanooga: University of Chattanooga, 1932; *Report of the Tax Survey Committee created by the First Called Session of the 42nd Legislature, Supplement to the Journal of the House of Representatives of the 43rd Legislature* (of Texas, n.d. but apparently 1933), chaps. 1, 14; W. H. Stauffer, *Taxation in Virginia*, N. Y.: Century, 1931, especially chap. 5; Committee to Study Burden of Taxes on Real Estate, *Taxes on Real Estate* (Va.), 1934; and Roy G. Blakey, *Report on Taxation in West Virginia*, Governor of West Virginia, 1931, chaps. 3-8.

⁸ The author has previously sketched this development in "State Financial Support of Public Service in the South," *Southern Regional Conference on School Finance*, Washington: National Education Association, 1941, pp. 29 ff., and more generally in *Tendencies in State and Local Taxation*, Lexington: Bureau of Business Research, University of Kentucky, 1940.

less than that for the whole country. Whereas the southern change reflects an apparently temporary situation in Texas to a large extent, the country-wide fluctuation seems to portray merely the continued decline of state property taxation; but income tax collections and most types of general sales and excise taxes have produced rapidly increasing revenues. In the gasoline and motor vehicle registration tax area there was an initial spurt in collections, but it was followed pursuant to the liquid fuel rationing program by a severe slump which, with property taxes, represented the main developments counter to the general trend.

Local

Data available do not permit a detailed examination of the trends of local property taxation in comparison with total revenues. Except for five states, none of which is in the South, there was an absolute increase in property tax collections between 1922 and 1932. Per capita local property tax collections, however, declined modestly in the decade of the 1930's in both the South as a whole and the entire country as a whole. Exceptional changes occurred in three southern states: Georgia and Tennessee showed slight gains; and West Virginia, a slump of nearly 50 per cent.⁹

Generally, the fluctuations in local policy as to property taxation, aside from changes brought about by state laws, reduced levies, and declining assessment levels, are not sufficient to justify detailed study in order to ascertain the general trends for the decades of the 1920's and 1930's. The radical shifts have occurred in state governments.

⁹Bureau of the Census, *Property Taxation: 1941*, pp. 12-14. The West Virginia showing resulted at least in part from adoption of a rigid tax rate limitation constitutional amendment. Cf. John F. Sly and George A. Shipman, "Tax Limitation in West Virginia," in Glen Leet and R. M. Paige (ed.), *Property Tax Limitation Laws*, Chicago: Public Administration Service (No. 36), pp. 77-82. See also Miller Hillhouse and Ronald B. Welch, *Tax Limits Appraised*, Chicago: Public Administration Service (No. 55), pp. 17-40.

MOTOR VEHICLE AND RELATED TAXES

The advent of the motor vehicle as a major factor in American culture has not only occasioned heavy public expenditures but has also made possible significant additional federal, state, and local revenues. The new money raisers include (a) transportation taxes imposed on commercial vehicles or their users in compensation for the public highways as places of private business, (b) registration or license taxes, and (c) motor fuel taxes.¹⁰

The southern states by 1941 secured through motor registration and gasoline revenues combined about 31 per cent of total revenues as compared with 24 per cent for all states. As a proportion of *tax collections*, the southern states and all states derived approximately 39 and 30 per cent respectively from these two "road taxes." In the development of these measures the states have predicated their policies on a theory of taxation not previously employed in raising a large amount of public revenue. The so-called "road taxes" are imposed, not usually for general revenue, but as a charge for a special service publicly provided. Although *charges* for particular services had been usual previously, this is the first large-scale case of charges imposed by taxation.

Motor transportation taxes

Producing in the aggregate for the whole country less than \$18 million, the taxes imposed on commercial transportation as compensation to the state for the use of roads do not constitute a significant proportion of the total state income. They can be dismissed, therefore, with bare mention.¹¹

¹⁰ Statistics in this section not otherwise credited have been assembled from official records by the Public Roads Administration and the Bureau of the Census.

¹¹ Data for these and for drivers' licenses are shown as motor vehicle license revenue in Table 2.

*The motor vehicle registration license*¹²

Originally, motor vehicle registration, which in this country appeared first in New York in 1901, was designed exclusively for police purposes. However, before World War I the revenue idea had become prominent in legislative purpose, and with the growth of automotive transportation following the depression of the early 1920's the license became a major state tax.¹³

By 1940 the motor license revenue of \$439 million constituted over 8 per cent of the total tax and non-tax revenues raised by state governments. In the South, however, motor registration tax revenues were just over 6 per cent of the total.¹⁴ Compared with tax revenues alone in the United States and in the South respectively, these figures become nearly 10 per cent and slightly more than 7 per cent.

In addition to the state motor vehicle registration taxes, local governments collect around \$10 million a year from this source.

For the South as a whole the war, contrary to the prevailing impression, has not effected a reduction in motor vehicle license revenue. In 1942 there was a slight decline; but the loss was recovered the following year. There has been a small decline for the whole country, but it is less than is generally thought. Although data for separating commercial from private vehicle licenses are not fully available, it appears that there has

¹² Apparently the first general study of the history and significance of the registration tax was that published more than 15 years ago, James W. Martin, "The Motor Vehicle Registration License," *Bulletin of the National Tax Association*, Apr., May, and Oct., 1927. That report is freely used in the present text as are: Bureau of Public Roads, *The Taxation of Motor Vehicles in 1932*, Government Printing Office, 1934; C. R. Tharp and others, *The Taxation of Motor Vehicle Transportation*, N. Y.: National Industrial Conference Board, Inc., 1932; and Federal Coordinator of Transportation, *Public Aids to Transportation*, Vol. 4, Government Printing Office, 1940.

¹³ By the middle 1920's the yield was between \$250 million and \$300 million. The 1930 peak was \$356 million.

¹⁴ This is not due wholly to lower average rates per vehicle in southern states than in the country generally, although they averaged respectively about \$9.80 and \$11.70. Motor vehicle density is greater outside than in the South. In interpreting these data, moreover, one should observe that the motor registration tax is in lieu of any personal property tax that may be imposed in the non-southern states having a large proportion of all motor vehicles and in only two southern states (Florida and Oklahoma).

been a net decline in the yield from registration of private vehicles—though perhaps not from the licensing of private drivers.¹⁶ The average proportion of total tax collections from this source, owing to increases in other state revenues, has shown a decline, not only in the South, but throughout the country.

Gasoline tax

One of the most extraordinary state tax developments this country has witnessed occurred in the 10 years following early 1919. In that period every state adopted gasoline taxes, which yielded by 1929 more than \$431 million. With higher rates and increased use of motor vehicles, the productivity of this tax continued its upswing with trifling interruptions in 1932 and 1936. By 1940 the total yield was about \$839 million.¹⁶ In the South the states have enjoyed an even more continuous advance in annual income from motor fuel taxes.

By 1940 the gasoline tax constituted about 24 per cent of total revenues of southern states as compared with about 17 per cent of total revenues of all states. About 26 per cent of all southern states' *tax revenues* were produced by state gasoline taxes as compared with 23 per cent for all states.¹⁷

The immediate initial impact of the war resulted in no decrease in motor fuel tax revenue in the South or in the whole country. For the fiscal year ending during 1942, in fact, there was a gain over 1941. The following year gasoline tax revenues in the southern states slumped about 19 per cent as compared with 17 per cent for the whole country. The downward trend has been accelerated by tighter rationing of fuel, but fuel tax revenues in 1944 were practically the same as in 1938. Thus,

¹⁶ Census data include drivers' licenses as well as motor vehicle registration taxes proper.

¹⁶ This is the census figure which is reported on a fiscal year basis. The calendar year showed \$919 million, thereby reflecting the defense period upswing.

¹⁷ The gasoline tax revenue per motor vehicle registered averaged about \$36.45 in the South as compared with about \$25.85 in all states (including the southern).

the actual reduction in taxable gasoline consumption is much less than is commonly assumed, even though it has been considerable. At the same time the decline in the proportion of total tax revenue from fuel taxes is marked.

DEATH AND INCOME TAXES

Death taxes

Although the first state death tax dates back to 1826, practically the whole development of such measures as significant revenue producers has occurred during the last 50 years. The first inheritance tax on direct heirs was enacted in North Carolina in 1855. Aside from this and the early death tax in West Virginia, there is little evidence that the South pioneered in inheritance or estate tax development. And this failure is what one would expect in the light of the usually small fortunes transferred in southern states as compared with those in the industrial and commercial states of the North and East.

Early in the present century, however, legislation in the South provided such taxes in most states. By 1922, 12 of the 14 southern states had enacted death tax laws. However, rates were generally low and exemptions generous, so that the total revenue produced in the dozen states was less than \$4 million.¹⁸ By 1940 all southern states imposed estate or succession taxes, and the revenue from these and the related gift taxes aggregated nearly \$10 million. Still, however, such taxes occupied a minor—almost insignificant—position in southern state revenue systems, yielding less than 1 per cent of total revenue as compared with a little more than 2 per cent in the entire country.

In recent months certain additional factors have operated to reduce revenues. The uncertainties and high federal taxes of the war period have not enhanced the productivity of death

¹⁸ Bureau of the Census, *Wealth, Debt, and Taxation: 1922*, "Digest of State Laws," pp. 524 ff. and "Taxes Collected," Table 6.

taxes; and the southern states in common with other parts of the country, although enjoying an early increase in collections from this source, have experienced a decline as the war has progressed. The decline largely reflects slumps in the Southwest; several states in the Southeast have enjoyed gains.

Income taxes

Although the states have imposed income taxes or their close relatives from the Colonial Period, the really significant history of such measures begins with the 1911 act in Wisconsin. Shortly after that legislation was passed, a number of other states began to employ the income tax to raise significant amounts of revenue. By 1922 the Bureau of the Census reported¹⁹ five southern states raising an aggregate of over \$6 million; and by 1940 all southern states except Florida and Texas imposed some kind of income tax to produce an aggregate of more than \$51 million. Instead of the less than 3 per cent of all southern state revenues produced thus in 1922, the southern states in 1940 raised about 5 per cent, as compared with 7 per cent for all states.

During the war period, southern state income tax revenues have been more than multiplied by two and a half. The upswing, reflecting higher prices, still continues. In many states it would have been even more marked but for (a) loss of skilled administrative manpower, especially auditors, and (b) the fact that most southern states permit a deduction of federal taxes in computing the state obligation. The effect of the deduction provision is negatively and emphatically presented by the upswing in North Carolina, where the deduction is denied, amounting to about 300 per cent.

Progressive state taxes

Perhaps the primary significance of inheritance, estate, and

¹⁹ *Ibid.*, "Taxes Collected," Table 6.

income taxes is found in the fact that they introduce a progressive element into the otherwise regressive state and local system. The aggregate state income from these taxes, which require a larger contribution from the well-to-do individual than from the poor, is not a large part of the total revenue from all sources; but it is sufficient largely to eliminate the preferred tax position enjoyed earlier by numerous individuals who had exceptional incomes or who inherited large amounts of property. The income and death taxes also introduced technicalities into state revenue practice which formerly were lacking. This fact confronted the states with both legal and administrative problems of considerable importance. It led in some cases to better administration than probably could have been secured except for such difficulties.²⁰

SALES TAXES

The revenue measures popularly called "selective excises" and "general sales taxes" showed considerable development beginning with the early 1920's. Despite their deflationary effects, these measures were usually initiated as depression phenomena.

Tobacco taxes

State taxes on the sale of manufactured tobacco products in the first half a dozen years following 1920 were imposed in 12 states, half of them in the South. None of these, however, was among the populous and rich commonwealths, and so the revenues were not great. After 1930 such legislation continued and was extended to a number of states in which cigarette consumption was so high that productivity was greatly increased. By 1940 the revenue produced by such measures in 25 states was over \$97 million, of which nearly \$30 million were collected in

²⁰ See the section below on "Changes in Tax Administration." It is of interest that the two southern states which have not enacted income taxes are the two which seem to have done least to bring legislation on administration up to date.

10 southern states. Thus the tobacco tax amounted to nearly 3 per cent of southern states' total revenue and almost 2 per cent of all states' total.

Even though tobacco taxation can scarcely be called a major source of state revenue, its productivity has increased remarkably since the beginning of the war period. In the 10 southern states which have had such taxes since 1941 the revenue climbed from \$35 million in that year to more than \$53 million in 1944. The increase continued in every one of the 10 states as recently as 1943-1944. Only with the current cigarette shortage have some of the states begun to experience declining revenues.

Severance taxes

Imposed on production of natural resources rather than on sales, the severance taxes have a history which parallels that of tobacco taxes. The former gradually increased until in 1940 the total yield in the seven southern states imposing such taxes was \$42 million.²¹ For the entire country the total yield in 1940 in the 18 states imposing them was \$52 million. The South secured nearly 4 per cent of all state revenue from the taxes on exploitation of natural resources as compared with 1 per cent in all states—or less than 0.3 per cent in states outside the South.

Generally speaking, the war has caused a marked increase in state severance tax revenues. From the outbreak of the war Texas, for example, has experienced an advance of well over a third; but the rate of increase in that and most other cases was greatly reduced after 1943. From 1942, in fact, Oklahoma has experienced a moderate decline. Examination of the figures shows that increased exploitation of petroleum resources largely explains the behavior of revenues.

²¹ This includes some revenue from production taxes in lieu of property levies.

Alcoholic beverage taxes

Although state governments obtained a modicum of revenue from alcoholic beverage taxes during the prohibition era, the history of present liquor taxes dates essentially from the repeal of prohibition. These excises have been mainly of two kinds, gallonage taxes on the sale of alcoholic beverages and licenses on persons engaging in the sale or distribution of such products. In addition, Arkansas, Kentucky, and Maryland have imposed production taxes. Some of the states which monopolized the spirits business enjoyed profits from the operation of public dispensaries. In 1935, the first full year after repeal, the sales taxes on alcoholic beverage transactions for all states totaled \$141 million; but this state income had jumped to \$260 million by 1940, in which year licenses and special franchise taxes amounted to nearly \$60 million. The monopoly states reported net profits from store operations in addition to tax revenue aggregating nearly \$74 million.²² Thus, the total special state alcoholic beverage tax revenue aggregated about \$394 million. In the southern states it approximated \$49 million. State alcoholic beverage taxes, profits, and licenses (including production taxes) amounted in the southern states to about 4.5 per cent of all state government revenues and in the United States generally to roughly 7.8 per cent. The difference seems to be accounted for in part by greater prohibition territory in the South and in part by lower average incomes.²³

These revenues advanced very rapidly in the early war years, but the scarcity of beverage alcohol has resulted in a recent revenue slump in some states. The total disappearance of revenue from the Kentucky whiskey production tax when distilleries began to manufacture ethyl alcohol exclusively caused

²² Monopoly state data from Glenn D. Morrow and O. F. Traylor, *State Liquor Monopoly or Private Licensing?*, Kentucky Legislative Council, 1942, p. 37.

²³ O. F. Traylor, "Effects of Tax Increases Analyzed," *Journal of Commerce* (N.Y.), second edition, Jan. 24, 1941, pp. 16, ff., especially charts 5 and 6.

an early slump in total revenues in that state. The sales taxes in most southern states, however, continued to advance. In fact, revenues from the alcoholic beverages sales taxes netted for all southern states only a very slight decline in fiscal 1944.

General sales taxes

A few states—including Connecticut, Delaware, Pennsylvania, and Virginia—have for many years employed merchants' licenses measured by gross sales or purchases. Aside from these imposts, state general sales taxes date from the postwar era. More or less general in coverage were low-rate sales taxes enacted in Georgia and West Virginia in the 1920's (and repealed in the former before the end of that decade). Essentially, the characteristic state general sales taxes awaited the decade of the 1930's. By 1940 the revenue from this source in such of the 14 southern states as imposed them totaled \$72 million, or more than 6 per cent of all state revenues, and in the sales tax states throughout the United States \$499 million, or nearly 10 per cent. About half the states, both in the South and in the country as a whole, employed the general sales tax. In the South in 1940 general sales taxes produced less revenue than motor fuel, unemployment pay roll, or property taxes; and in all states together they yielded more than state property taxes.

General sales tax revenues have shown the same general influence of wartime economy as have most other excises. The increase 1940-1944 approximated 66.6 per cent in the southern states which employ this revenue measure. The average advance in all sales tax states was 44 per cent for the same period. The upswing, which slowed down only modestly in 1944, evidently arises from increased consumer purchases and also, unlike the tobacco tax, from the advance in the price level. In any event the sales tax states of the South secured about \$48 million more income from this source in 1944 than in 1940.

Miscellaneous excises

Several other selective excises have considerable revenue significance. Among them, ignoring business taxes, are soft drink, amusement, betting, hunting and fishing, documentary, and a few other taxes and licenses. In the aggregate, these measures are used to about the same extent in the southern as in other states.

BUSINESS TAXES

In general, the taxes on corporations (not measured by income) and on particular classes of business have shown less increase during the two decades ending in 1940 than have death and income taxes or the various classes of excises. Chain store taxes probably represent the most significant entirely new *business* excise. They are not of great revenue importance but represent an interesting social control device. It is of interest that 9 of the 20 states using such measures are to be found among the 14 southern states.

The war period has brought no material change in revenues from such taxes.

UNEMPLOYMENT COMPENSATION TAXES

The productivity of state pay roll taxes to support unemployment compensation programs increased, following their enactment to implement the federal Social Security Act of 1936, to \$844 million in 1940. Some writers prefer to treat such contributions as social insurance premiums—as is usual in Europe—rather than as taxes; but they are legally taxes under most of the constitutions thus far construed. The unemployment compensation pay roll taxes in the southern states supply about 11 per cent of total revenues, and in all states about 17 per cent.

With wartime rises in employment and in wage rates, these revenues have shown marked gains. The net increase in south-

ern states has averaged about 54 per cent and in all states about 56 per cent.

COUNTY REVENUES

Data respecting wartime trends in county finances are decidedly meager. The United States Bureau of the Census published a report as to the fiscal year ending during the 12-month periods which closed June 30, 1941 and 1942 showing statistics on a basis roughly comparable with 1932 and 1940 figures for a number of large counties, most of them having metropolitan centers. Only four counties are consistently reported for the southern states. Also, totals for county revenues are available for six southern states for both 1941 and 1942. For those reported on a comparable basis fluctuations are erratic: Kentucky and Oklahoma show declines; and Mississippi, South Carolina, and Virginia show gains. The facts available disclose little evidence of any marked change in the revenue structure during the early war period. The change in property tax collections on the whole was insignificant, and two large Texas counties registered small declines for 1941. In view of the fact that there had been a considerable gain since 1932, the last year for which financial statistics of counties are fully available, this showing is significant.²⁴

A study of printed financial reports of some half dozen counties having better than average management indicates that there may have been a revenue increase in 1942 and 1943 as compared with 1940 and 1941. Apparently the counties have reduced property tax assessments and, in some instances, particularly when debts have been retired, have eliminated levies. In consequence, although both current and delinquent collections have been better, there has been no marked increase in

²⁴ Cf. Bureau of the Census, *Financial Statistics of Counties: 1941*, pp. 2-10 and *County Finances, 1942*, various pages.

tax revenues, and there has apparently been no increase whatever in other revenues.

On the whole, changes in aggregate state and local revenues are little affected by wartime alterations in county data. It appears improbable that a more searching analysis of county statistics would modify this conclusion.

CITY REVENUES

The most arresting feature revealed by the limited examination of city wartime revenue changes which has proved possible is lack of substantial general differences from one year to the other. Southern cities having a population of more than 100,000 unlike those in the same size groups in other parts of the country, have experienced slight revenue gains. It appears that Atlanta, Charlotte, and Oklahoma City had lower revenues in 1942 than in 1941; however, in each of these cases the revenues from *taxes* actually advanced. In Atlanta there was a slump in city revenues from public service industries which more than compensated for the gain in tax revenue. In 1943 there was a consistent upward trend in city revenues among all southern states having municipalities of over 100,000 population. The increase was only an average of about 4 per cent, but it was almost uniform and definitely greater than for similar cities in the country as a whole. Various factors explain the increase in municipal revenues in the southern states early in the war period. The most important factor appears to have been more adequate collection of current property tax levies and increased collection of delinquent taxes.

A special investigation of some 20 small municipalities, located mainly in Kentucky but partly in other southern states, revealed an almost insignificant revenue change since 1939 and 1940. Practically all increases in collections have been offset by reduced tax rates. In a few instances revenue losses due to

the spread of prohibition territory have also entered the picture without for the most part effecting any net change in totals.

New revenue adjustments of various sorts are being made, but at a pace not much greater than previously. The unusually well-managed city of Port Arthur, Texas, has provided for a considerable reduction in its general purpose tax rate and for a 40 per cent increase in its debt service levy. This readjustment has operated to maintain a stable tax rate. Memphis, Charlotte, Tulsa, Amarillo, and Columbus (Georgia) have provided for parking meters as a minor source of revenue. Texas cities have been authorized to impose local utility taxes on a gross receipts basis.²⁵ As a final illustration of this type of readjustment, West Virginia and Alabama cities in several cases are imposing taxes on admissions to places of amusement.

CHANGES IN TAX ADMINISTRATION

State administrative developments

In the latter part of the nineteenth century several states established tax departments charged with positive administrative functions. The most usual assigned tasks were (a) equalization of local valuations of property and (b) original assessment of railroad properties. As state taxes—such as corporation capital stock, insurance premium, and death taxes—were enacted, they were administered by various agencies, not necessarily by the offices charged with property tax equalization and assessment functions. In many states assignment of revenue tasks was based more heavily on patronage and related considerations than on any idea of functional unity.

About the time of World War I the movement toward consolidating tax administration under one department began to take form. In most states there was a tendency for the property tax assessment agency to form the core of the consolidated

²⁵ *Municipal Year Book, 1943*, pp. 239 ff., 255.

revenue administration department. In any case, the task of handling taxes levied directly for the state soon over-shadowed that of assisting with property tax assessment functions. By 1930 the start toward consolidation had begun in five southern states²⁶ and had approached relative completion in three.²⁷ In no southern state, however, had a closely knit state tax department been established by that time. By the end of the 1930's Arkansas, Mississippi, North Carolina, Tennessee, Alabama, Georgia, and Oklahoma had progressed considerably toward consolidation of tax administration into one department; and several states²⁸ had made headway toward administrative integration within the department. Meantime, Florida and Texas had each placed a larger and larger proportion of the tax work in the hands of an elected comptroller.

Certain curious limitations were placed upon the consolidation of administrative responsibility in many of these states—as was also true in other parts of the country. In the first place, several states which gave some evidence of understanding the advantages of unification nevertheless developed two or more tax departments. Illustrations are Arkansas, Virginia, and West Virginia, in each of which, for example, public utility tax assessments continued to be handled outside the principal tax administration agency; Mississippi and Virginia, in which motor vehicle registration and gasoline taxes were still in the hands of other agencies; and almost all the states, in which motor transportation and insurance premium taxes, traditionally in the hands of policing agencies, remained independent of the tax department. Another anomaly lay in the fact that many states apparently assumed that though property tax assessment required state supervision—often including equalization

²⁶ Ark., Miss., N. C., Tenn., and Va.

²⁷ Ky., S. C., and W. Va. The classification is more or less arbitrary, and could be recast by another observer.

²⁸ Notably Ky., La., Miss., and Okla.

between assessment districts and review of individual local valuations—most southern states accorded local collections scant attention; and many of them did not even provide for tax department exercise of the settlement function. A third queer limitation persisted as the decade of the 1940's got under way: With the consolidation of many of the tax administration functions in one department, relatively few states had taken occasion to knit the administration together, so that they might exploit the major advantages of placing tax work in a single agency.²⁹ Indeed, until recently, even those writers who strongly commended consolidation of tax administration in one department frequently gave little evidence of appreciating the *operating* possibilities of such an arrangement.³⁰

Local and state-local developments

Local changes in tax administration have resulted from two factors: (a) administrative evolution growing out of local forces and (b) alterations due to state supervision and, to some extent, to state legislation. The most far reaching development during and following World War I was the persistent increase in the impact of discriminatory assessments and incomplete collections. In part, this condition was the direct consequence of heavier levies; as rates increased, the dollar amounts of the discrimination were greater even without changes in assessment ratios.³¹ However, in many cases the variations in assessment ratios became greater as the value to the taxpayer of increasing the degree of under-assessment grew.³² It appears

²⁹ James W. Martin, *Consequences of Integrated State Tax Administration*, Lexington: Bureau of Business Research, University of Kentucky, 1943.

³⁰ See e.g., the works cited in footnote 7.

³¹ By *assessment ratio* is meant the assessed valuation divided by the market value of the same property.

³² Perhaps the maximum discrimination in the South is illustrated by data on local assessments in Florida, Texas, Virginia, and West Virginia around 1930. *Report of the Special Committee on Taxation and Public Debt in Florida, 1935*, chap. v, especially pp. 94-95; *Report of the Tax Survey Committee created by the Fortieth Legislature of Texas*, p. 15; William H. Stauffer, *Taxation in Virginia*, N. Y.: Century, pp. 93-96; and Roy G. Blakey, *Taxation in West Virginia*, chap. iii, especially pp.

that the assessment practices somewhere in each southern state at one time or another reflected cumulative assessment demoralization due in part to increasing levies. If it be kept in mind that growing delinquency means that those who meet tax bills must pay their own shares plus an amount sufficient to take the place of payments the delinquent do not make, then the implications of inefficient tax collection become apparent. The degree of discrimination from this cause, moreover, ranges up to infinity. Such inequalities, like those due to poor assessments, reached a peak during the depression of the 1930's.

Due at least in part to the intolerable conditions which have just been described, many enterprising assessment districts, especially in urban areas, reformed their property tax administration. In communities like Louisville, Kentucky, Buncombe County, North Carolina, and Dallas, Texas, the changes have been a phase of a general reformation of local administration. Apparently in some Florida counties and in Jefferson County, Alabama, general local administration reform has not contributed toward the unquestionable improvements in assessment practice. Louisville required considerable legislation to effect charter amendments; Jefferson County, Alabama, required no such state assistance.³³

Aside from changes due to local factors, the extension of state assistance was a second major factor in local tax administration developments which occurred in the two decades following 1920. This factor has occurred in every southern state except possibly Texas. Perhaps the history of Kentucky is sufficiently typical of most southern states that a sketch of that state's landmarks may clarify the general picture. In the

127-128. Cf. James W. Martin and C. M. Stephenson, *Aspects of the Movement toward Separation of Sources of State and Local Revenue*, Lexington: Bureau of Business Research, University of Kentucky, 1933, pp. 12-13.

³³It appears, however, that the Alabama general law establishing assessment boards influenced developments.

period prior to 1917 central tax administration in the Blue Grass State had been passive except for equalization of local assessments and for valuation of certain public service corporation and other properties, which had been in the hands of an *ex officio* board. In 1917, incident to a codification of tax laws, the legislature provided a full-time three-man tax commission authorized to assess utility property and whiskey in storage, to equalize county assessments of other properties, and to review (on its own motion) individual errors committed by local assessment and review agencies. The commission continued these functions, together with administration of most other state taxes, until 1936; but during this period it did not handle local property tax collection supervision or settlements. Moreover, the task of enforcing omitted assessments and collecting delinquent taxes was farmed out to a "revenue agent," that is, to a tax ferret. A 1936 statute, perfected by amendments and administrative changes in 1938 and 1940, charged the Department of Revenue, the successor of the Kentucky State Tax Commission, with active supervision of property tax assessments and collections, with settlement with local collecting officers, and with handling all state omitted tax and delinquency enforcement work. Among other things which proved significant during the period following 1936 was the collection of comprehensive statistics relating to local assessments. Meaningful also was the collection machinery which was established to handle property tax and other cases. Most important of all was the means provided for direct aid to local tax officials, including provision of tax schools, preparation of forms and regulations, dissemination of information, and counsel to local officials through circulars, manuals, and conferences, and employment of specialized field agents. This approach to property tax administration sought gradual improvement. It was

apparent that inequalities of certain sorts—possibly of all kinds—were reduced by 1940.

The most obvious war development in the field of tax administration is the reduction in experienced personnel due to the claims of the armed services and to the temptations provided by war industry. In those states which have operated under substantially their present organization for many years and hence are in large part staffed by older men and women the war turnover has been less marked than in the more recently reorganized states. In Alabama, for example, the personnel drain until recently, though considerable, has been far from disastrous. In Kentucky, in which the Department of Revenue has been staffed heavily with younger men and women, the claims of competing jobs have been little short of disastrous.

Akin to, but somewhat less devastating than, the losses in staff are the inadequacies of transportation facilities for the administration of the tax programs of state and local governments. For example, rationing boards have been erratic in providing tax administrators, including assessors, with a sufficient supply of gasoline. In some cases field investigation and collection work has been kept up satisfactorily. In others it has seriously lagged.

Partly as a continuation of an already existing trend and partly as an outgrowth of war conditions, the assessment ratio appears on the whole to have declined more rapidly than before 1941. The assessment slump has expressed itself not only in lowered ratios of assessed to full value of property but also in the increase in inequalities between different parcels of property and different classes of properties. Certain marked exceptions to the trend toward lessened efficiency are to be found. For example, the improvement in local assessments in Jefferson County, Alabama, has gone forward apace despite war condi-

tions. Some of the states, also, are continuing to improve their assessments of utility property taxes.

In general, the war period has witnessed little marked improvement in state tax administration, and the impediments in most states appear to have constituted stronger factors than have reform efforts. Two or three modest exceptions seem to be apparent. Alabama has announced, but has not consummated, plans for administrative integration. Louisiana and perhaps Georgia have continued reforms undertaken prior to or early in the war period. The wartime changes have not been great. In Alabama also some state assistance to local assessing officers has been initiated. Moreover, in a number of southern states there has been a continued increase in the effectiveness of research and reporting activities. General improvements have occurred in Kentucky and Louisiana. The Alabama Department of Revenue has joined with that state's Department of Finance to issue a significant joint report, and North Carolina has placed in full operation the first permanent state department of tax research.

II

STATE AND LOCAL EXPENDITURES

Because available expenditure data for state and local governments are non-comparable from year to year on a state-by-state or city-by-city basis, the general background tendencies must perforce be presented largely in terms of nation-wide data.

NATION-WIDE TRENDS IN STATE AND LOCAL EXPENDITURES

Although the total cost-payments of states increased during the nine year period 1932 to 1941 by more than 115 per cent, the local cost-payments advanced only 7.3 per cent.³⁴ Among specific heavy expenditure items, the phenomenal upswing at both the state and the local levels of payments for welfare and social insurance purposes was especially striking. The rise in school expenditures was also impressive. Particularly notable is the fact that cost-payments for transportation and highways, although rising at the state level, declined considerably at the local. Interest payments declined, reflecting lower interest rates and reduced debt outstanding.

Capital outlay for construction is one class of heavy governmental expenditure. After the peak outlays of 1930, expenditures for construction declined almost 40 per cent to a low point in 1933. With the federal works program the level rose suddenly in 1934 and reached another high point in 1939.

Expenditures for public assistance

The cost of the public assistance program bulks large in total expenditures for welfare and related purposes. Although from 1939 to 1941, the only years for which comparable data are available, old age assistance expenditures increased consider-

³⁴ See Table 4.

ably, there was a slight decline during the two year period in total public assistance expenditures. The reduction in general relief and farm subsistence payments was sufficient to offset the increase in aids for the aged, dependent children, and the blind.

Expenditures for public schools

From 1930 to 1940 the costs of the public school program in the aggregate first declined sharply, then increased gradually to a point approximating the 1930 level. In terms of expenditures for each school child in average daily attendance, the 1940 figure was nearly 3 per cent lower than that for 1930. Capital expenditures were still low in 1940, but current support recovered fully by that date.

Trend of principal expenditures in the South

Much of the information presented in this section, as already noted, is not available by states and cannot, therefore, be shown for the South independent of the country as a whole. Sufficient scattered statistics are at hand, however, to justify the generalization that tendencies in the South were not substantially different from those reflected in the national trends, except that the amount of money per capita was lower in most southern states than in the rest of the country. In the sections which follow, some data are presented on a state-by-state basis as a means of showing the trends for those classes of governmental units respecting which comparable data can be secured.

STATE EXPENDITURES

Data for a functional and an object breakdown of state expenditures are available for certain years, 1925-1940. These statistics indicate that total state cost-payments almost tripled during the 15-year period. Although the increase was more or less continuous except for the depression period of the early

1930's, the upswing was greatest in the late 1930's, when the social security program was being launched. Moreover, with the increase in current expenditures, 1937-1940, and with the slight decline in Public Works Administration project expenditures, there was a definite reduction in the proportion of total expenditures used for capital outlay.³⁵ As compared with pre-depression data, and particularly as compared with 1937 statistics, the ratio of capital expenditures to total slumped by 1940 less in the South than in the country as a whole. Also, the percentage of capital outlay devoted to highways fell off in the South as elsewhere. Meantime, there was a reduction, about equal in both North and South, in the proportionate charge for interest. Indeed, after 1938 there was, in the South and generally, a trifling decline in the absolute amount of interest payments.

It is obvious, then, that expenditures for operation and maintenance mounted rapidly in prewar years. The gain in the proportion of the total available for current purposes, 1925-1940, was about 26 per cent in southern states as compared with over 24 per cent in all states. Throughout the period the actual proportion was definitely higher in the South than in other sections. Presumably, this is largely because institutional and road construction below the Mason-Dixon Line lagged behind the average state.

Respecting the specific functions of state government, it is significant that the South during both prewar and war periods has devoted very much less than an average proportion of its current expenditures to welfare and a definitely greater than average proportion to highways and education. Moreover, the highway and education support position in total state cost-payments has declined recently less than in the other states. Similarly, the increase in proportionate provision for welfare

³⁵ See Table 5.

has mounted less rapidly than in other parts of the country. It seems that southern states, lacking revenue reserves reasonably available to other sections, have adhered more closely to a policy of maintaining traditional activities and have been less inclined than has the average state to venture into new functional areas. This conclusion is reinforced by the fact that the percentage advance in the absolute amount spent for education and for roads from 1925 or 1930 to 1940 was definitely more rapid than the increase in the country as a whole.

Examination of a breakdown of state expenditures by functions for the war years is revealing. The most remarkable increase among direct operating expenses from 1941 to 1943 was in the field of public welfare, an area in which one might assume that wartime prosperity would render possible some reduction in costs. The direct expenditures for schools rose considerably, though not nearly so much. State grants to localities for schools, which are much more important, increased substantially though not as much as did direct school expenditures. In all states the increase in welfare support was nominal, and that directly for state schools was marked. In the South expenditures for public safety went up over 14 per cent and in other parts of the country nearly twice as rapidly. Expenditure for state aid to local governments rose in the same two years nearly 8 per cent in the South and almost as much in all states. The gain reflected a marked rate of increase in aid for education, and the percentage gain was greater in other states than in the South. On the other hand, there was a sharp decline in the South in highway aids and a modest reduction in the country generally. Other important classes of aids showed a slight gain—except that in the average of all states there was a definite reduction in welfare grants. The war period has brought a general but not entirely consistent decline in capital outlays, but the falling off in the South was neither as prompt

nor as great as in other states. Full explanation of certain variations from normal practice is lacking. The flurry of 1942 capital outlay in Kentucky was mainly due to emergency expenditures for roads and for eleemosynary institutions; otherwise the state has followed the general pattern. The exceptional increases in outlay in Alabama, Georgia, and Texas seem to have been the consequence of unusual road building activity to service war industry expansion and military encampments. The exceptional decline in capital outlay in Mississippi reflects the tapering off of an extraordinary highway building program. Some of the similarly erratic changes in other states appear to have resulted to some extent from the methods of accounting employed.

State expenditures for direct operations increased moderately in 1942 in the South and elsewhere and then rather emphatically and consistently increased throughout the South in 1943 as compared with 1942, while there was an actual decline in the average non-southern state. South Carolina and West Virginia did not follow the common pattern in respect of the increase after 1942, but the declines in these two states were modest. It is of particular interest that operating expenditures for the state government of Texas increased by about \$24 million in 1943 as compared with 1942. Though methods of reporting have not been sufficiently consistent to justify a conclusion, this apparently marked an entirely new peak in direct operating expenses for that state.

One of the most interesting developments in southern state finance has been the distinct increase in debt service charges and a moderate decline in interest payments (accompanied by a 40 per cent cut in the proportion of expenditures devoted to capital outlay). This situation resembles that characterizing state government experience throughout the country. Of the 13 southern states reported as paying interest in 1943, 8 have

experienced a decline in interest charges. Practically all of the states in the South have devoted definitely larger sums than formerly to debt retirement.

CITY EXPENDITURES

Expenditure data are available on a practically comparable basis for cities of more than 100,000 population for certain selected inter-war years.³⁶ From 1926 to 1936 there was a slight decline in total city expenditures in this class of southern municipalities and a small increase for cities of similar size throughout the country. By 1939 a part of this loss had been regained in the South and a much more significant advance had been registered in the remainder of the country.

For years prior to 1940 it appears that large southern cities spent a much lower proportion of total cost-payments for direct operations than did all cities of similar size. The gap was gradually reduced until by the end of the 1930's it was six percentage points, still a very considerable differential. By the same token capital outlay represented a consistently larger proportion of the total. At least a part of this is probably explained by the capital shortage in both private and public business characterizing the southern economy particularly prior to 1926. Whether the larger relative interest payments in southern cities reflect comparatively greater debt loads or higher average interest rates, or some of both, is not known. The phenomenon may be explainable in terms of relative support of public services.

Observing the functional breakdown for the same years, one finds that police and miscellaneous safety and health costs continued relatively greater (and more stable) during the period prior to 1940 in southern than in other cities. Welfare expenditures were a consistently and increasingly lower pro-

³⁶ See Table 6.

portion of the total in the southern than in the other cities of similar size. School expenditures, statistics of which are not entirely reliable due to the fact that some cities do and some do not support schools directly rather than through an independent school board, were relatively lower in the South than elsewhere in 1926, but higher by 1939. The other functional classes seem to show no consistent picture prior to 1940.

During the war period southern city expenditures have behaved erratically. By 1942 some of them showed marked increases and some equally great decreases from 1939 figures. For example, while Nashville showed a gain in total expenditures from \$4,582 thousand to \$5,415 thousand, Chattanooga experienced a decline from \$4,610 thousand to \$4,033 thousand.

A more significant wartime change has occurred in the *character* of large city expenditures. In the southern states the reduction in capital outlays was distinctly less in cities of 100,000 to 500,000 population than throughout the country in communities of similar size, where capital outlays slumped 1941 to 1942 from about \$54.5 million to approximately \$37.1 million. Moreover, the larger cities of the South actually showed a net increase in aggregate expenditures in sharp contrast with cities of similar size in the entire country. The following year there was another slight increase in operating costs in the southern large cities and all comparable cities. This total reflected in 1942 a trend contrary to that of the national average in costs of operation and also in debt service expenditures. In 1943, however, there was a reversal in both cases as to debt service, and the net two year change in both cases was upward, reflecting more rapid debt retirement. Study of the showing of individual cities strongly suggests that the southern tendencies are primarily a consequence of the number of military camps nearby and also of the extraordinary booms in such places as Norfolk and New Orleans which have led to marked

and consistent increases. Similar, but less emphatic, upswings are found in cities like Atlanta and Louisville, which are heavily influenced by army camps. In Atlanta and in Virginia cities there was a 1943 decline in operating costs. The southern operating expenses have risen *relative to the total* by about 10 per cent. The increase in all cities of similar size has been almost the same. This increase in percentage of operating expenditures is compensated by a corresponding reduction in capital outlay and interest. The reduction in provision for new capital comes partly from patriotic diversion of men and materials to war purposes and partly from scarcity of materials and manpower for construction. The reduction in interest payments comes both from cutting outstanding credit obligations and from lower interest rates. One aspect of operating expenses requires particular emphasis. The wages and salary expenditures of most cities declined from 1941 to 1942, due mainly to loss of employees to the federal service including the armed forces and to war industries. Before the end of 1942 many cities had been forced to increase salaries and wages payments. During 1943 many additional cities did so, and many others which had readjusted scales early were compelled to make additional raises. The fiscal period ending in 1944 for the first time exhibits the full force of these pay changes. In consequence, for fiscal years ending between July 1, 1943, and mid-1944, 9 of 12 cities contemplated marked additions to aggregate salary and wages costs. This problem, together with the expenditures necessary to catch up with capital outlay and maintenance will in the future cause so considerable a budgetary drain as to lead the impersonal Bureau of the Census to express concern.³⁷

The war has brought the functional distribution of large southern city expenditures more nearly in line with those of

³⁷ *City Finances: 1942*, "City Expenditure in 1942," p. 2.

cities of similar size in other parts of the country. The 1942 highway expenditures were comparatively lower in the South than elsewhere by a distinctly wider margin than in 1939. Conversely, educational expenditures, including those for libraries, were relatively higher by an increased margin.

Statistics of expenditures for smaller cities are not comparable in different years, so that no comparison between wartime years and the general expenditure trend is feasible. The lack of small city data would be more serious but that the cities of more than 100,000 population probably represent a characteristic situation,³⁸ and certainly a large proportion of total municipal expenditures—nearly 70 per cent for the whole country in 1942.

COUNTY AND OTHER LOCAL GOVERNMENT EXPENDITURES

Data for counties, school districts, townships (unimportant in the South in any event), and special taxing districts are not available in a form which permits a comparison between wartime expenditures and any indication of a trend. Figures for counties of 5 southern and 14 other states are available for 1932 and 1942.³⁹ In the case of the southern states these show a slight decline and in the case of other states a slight increase in totals.

In 1932 operation and maintenance required three-fourths of all county expenditures in the South and two-thirds of all county expenditures in the entire country. By 1942 the southern operations had risen to more than 0.8 and in all the country 0.9 of the total. Whereas in 1932 counties throughout the country spent more than three times as large a proportion of the total on construction as did the southern counties, in 1942 the southern counties, though they had cut capital outlays some-

³⁸ A sample of cities throughout the South has been specially studied through their own financial reports, and the data support the inference stated in the text.

³⁹ See Table 7. It is not known whether the information reported is typical, but other census data suggest that it is.

what, were actually spending more than were those in other regions. However, the figures are somewhat distorted for present purposes by the handling of educational costs.

Data on a functional basis are available⁴⁰ in respect of expenditures for support of public schools. These figures are independent of state, city, and county statistics as (reported by the Bureau of the Census) insofar as expenditures are made by financially independent school districts; otherwise the figures are included in statistics already separately presented for cities and counties.

Examination of school expenditure statistics discloses that in the South there was a net increase 1940-1942 of 6 per cent in totals as compared with a decline for all states of nearly 1 per cent. Every southern state except three showed the characteristic advance in total school expenses. Of the three exceptions, Louisiana's and Virginia's declines are more than accounted for, and Oklahoma's largely accounted for, by the wartime slump in capital outlay. The difference between the apparent initial impact of the war in southern and in other states, though comparatively minor, is arresting.

⁴⁰ "Statistics of State School Systems, 1939-40 and 1941-42," U. S. Office of Education, *Biennial Survey of Education, 1939-40*, Vol. II, chap 3.

III

TRENDS IN INTERGOVERNMENTAL FISCAL RELATIONSHIPS

All levels and practically all forms of government in the United States grant financial assistance to some other governmental unit. Except for the federal government, all are also recipients of such assistance. To understand the general fiscal structure, therefore, some attention must be devoted to fiscal aid as a means of supporting state and local governmental functions. Although various local governments aid various other local governments, as well as some of the states, the amounts involved are comparatively small. In 1940-41, for example, the local grants to all state governments in the entire country aggregated only \$41 million. The local grants to other local governments are undoubtedly still less important, though complete information is lacking.

The aid granted is susceptible of classification on the basis of (a) the government making the grant; (b) the government receiving aid; (c) the function aided; (d) the sources from which assistance is paid; (e) the method of distribution, whether on the basis of the origin of particular revenues or on the basis of a measure of needs for specific services with, in many cases, some consideration of local ability to meet the needs; and (f) the degree to which administrative control accompanies the aid. Classification according to the degree to which administrative control accompanies the aid seems to be significant in a political sense, but appears to defy quantitative statement.⁴¹

⁴¹ Bureau of the Census, *Federal and State Aid: 1941*, chap. I. Aids, assistance, and synonyms are used in this discussion to include what are sometimes called grants-in-aid and shared taxes.

THE EVOLUTION OF FINANCIAL AID

Statistics showing the development of fiscal aids are in large part non-comparable. In consequence it is not feasible to show a state-by-state picture on a comprehensive basis. However, certain data for the United States as a whole are practically comparable for particular years from 1925 to 1941.

*Federal aid*²²

Prior to the enactment in 1936 of the Federal Social Security Act, aid for highways was far more important than that for any other purpose. For the country as a whole in 1941 federal aid for public assistance, which includes old age assistance, aid for the needy blind, and aid for dependent children, all first authorized in 1936, bulked larger than grants for any other purpose. From 1932 to the war period, grants for public assistance, highways, education, agriculture, and miscellaneous purposes increased rapidly, though road aid was down in 1941 as compared with the 1930's.

Nearly 90 per cent of all federal grants are for aid to states. Data, not precisely comparable, show in outline the trends since 1923 on the basis of total amounts granted by the federal government and on the basis of amounts per capita. In the early 1920's and until the depression period of the 1930's the southern states on the average received more aid per capita than did the average of all states. However, Kentucky and West Virginia were consistent exceptions. In recent years the general situation has been reversed. In the entire South in 1940 only Louisiana and Oklahoma, two of the richest states, received as much per capita from the federal government as did the average state throughout the country.

²² See Table 8. In addition to federal aid as such, the central government prior to the war followed a policy of directly operating certain functions which were of major significance to state and local governments. Such assistance in kind has been called "quasi-grants." Henry J. Bitterman, *State and Federal Grants-in-Aid*, N. Y.: Mentzer Bushy Co., 1933, p. 162; and Bureau of the Census, *Federal and State Aid: 1941*, pp. 4 and 20.

Although federal grants of fiscal assistance to southern states have continued during the war period to be lower per capita than have those to the states outside the South, there has been an increase. The rate of increase has been greater in the South than in the country generally. In some of the southern states having the lowest general income levels, for example Arkansas, there has been an almost unvarying amount even though there has been a slight wartime increase per capita. Since 1940 federal aid per capita to 11 southern states has advanced by more than 25 per cent as compared with 27 per cent in aggregate federal aid. In relation to 1941 only Arkansas and Mississippi have suffered an absolute reduction in federal aid.⁴³ The change which has occurred seems to have depended mainly on the states' increasing provision from their own funds for the public assistance programs pursuant to the Social Security Act.

In relation to total state tax revenue federal aid in the South is a little higher than in other parts of the country, and the advantage is increasing a trifle. The ratio in 1943 ranged from 12.0 per cent in North Carolina to 26.2 per cent in Oklahoma, the average being 19.4 per cent for all southern states. One must be cautious in interpreting these data, as the ratios are affected by the state-local distribution of labor; for example, North Carolina is the low state because fiscally its state government bulks large in the total governmental picture, not because grants received are relatively low.

State aid

As previously indicated, not only are the states and to some extent the local governments aided by the central government, but the states in turn also grant assistance to localities. The total grants-in-aid by all states tripled between 1925 and 1941. Aid for public schools during that period heavily outranked all

⁴³ See Table 9.

other objects of support. Public assistance has recently come to occupy second place instead of highways as formerly. Other objects of state grants are of minor financial significance.

Examining the grants to localities, including cities, counties, school districts, and special districts, one finds extraordinary variations in state-aid policy and in immediate prewar changes. In general, the rate of increase in the South does not seem radically different from the average rate in all states; though the differences between the individual states render any such comparison more or less meaningless. Because southern local governments are relatively under-supported, revenues from state grants occupy a much larger place in most of the southern states' local governments than in local units throughout the country.

From 1941 to 1942 the southern states on the whole conformed with the national trend toward increased distribution of state financial assistance to local government. The increase in the southern states as a group was modest, though 10 of the 14 states showed advances. From 1942 to 1943 the national average showed a slight decline, whereas the advance in the southern states continued at an accelerated pace. In the latter year 11 of the 14 states increased aid to their localities.

Wartime changes in grant-in-aid techniques have been minor in most cases. One exception is found in Kentucky; at the 1941 general election the electorate approved a constitutional amendment which made it possible for the legislature to distribute a part of the state aid for education exclusively to poor school districts instead of on the invariable census-child basis hitherto constitutionally required. In 1942 the General Assembly enacted legislation pursuant to this change in the fundamental law providing for the distribution of school funds to all districts unable from local taxes and per capita aid to provide support at the rate of \$30 per average pupil member of schools.

Two years later the mark was raised to \$40, and the appropriation was greatly increased.

STATE RESPONSIBILITY FOR LOCAL DEBT

Since the 1920's state governments have in at least two ways, aside from grants-in-aid, accepted partial or complete responsibility for local obligations. The two methods employed involve (a) a loan of the state's credit and (b) acceptance of liability for servicing or partially servicing local debts.

Of the four or five states which have accepted contingent liability for local debt service, North Carolina and Mississippi among the southern states have done so. In the former state more than \$17 million was borrowed in the 1920's and the proceeds lent to local governmental units for school building purposes. After the 1927 flood, Mississippi lent about \$2 million to certain counties. The local governmental units have paid service charges with reasonable promptness, and apparently the state will not be called upon to bear the load.⁴⁴

*State servicing of local debts*⁴⁵

At least 11 states, several in the South, have undertaken responsibility for paying either interest or principal of local debts; in the cases of Arkansas, Georgia, and Tennessee the plan was essentially that of outright assumption. Arkansas originally undertook in 1927 to service approximately \$70.5 million of local road and street improvement district bonds. In addition, the state government directly had some \$84 million of outstanding debt. The default on Arkansas debt, although it might have occurred in the absence of the local obligations, was undoubtedly rendered more certain by the existence of the

⁴⁴ Edna Trull, *Resources and Debts of the 48 States*, New York: Dun and Bradstreet, 1937, pp. 17-19.

⁴⁵ Trull, *op. cit.*, pp. 14-17 and *Borrowing for Highways*, New York: Dun and Bradstreet, 1937, chap. 10; and Wylie Kilpatrick, *State Supervision of Local Finance*, Chicago: Public Administration Service, 1941, pp. 43-46.

local bonds. Under a constitutional amendment of 1932, Georgia assumed the obligation for paying nearly \$27 million of county and coastal highway indebtedness incurred previous to September 1, 1931. The state obligation in this particular instance extended to principal only. In the early 1920's Tennessee encouraged counties to issue bonds and permit the state to use the proceeds for construction of highways within their boundaries. In 1927 the state agreed to reimburse counties which, prior to the end of 1928, turned over the proceeds of such obligations. In 1931 the state also undertook to service county bonds issued to build highways subsequently taken over by the state. As a consequence of the two enactments, Tennessee assumed more than \$35 million in principal with interest at 5 per cent. The debt is serviced from gasoline tax revenues. Florida by 1941 in effect had taken over total obligations on account of county and special district road expenditures aggregating over \$35 million. Over \$4 million of this was on local debt on highway facilities leased by the state.

South Carolina in order to stimulate highway construction created special districts and authorized counties to borrow under agreements with the state highway department that the state would service the debt. The total in this instance amounted to about \$38 million; and the obligations of the localities, although unrestricted, were legally outside their debt limits and in practice were entirely paid by the state government.

Texas in 1932 enacted legislation by which the state government undertook to participate in servicing county and district road indebtedness. The total aggregated some \$80 to \$110 million;⁴⁶ and the debt charges, both interest and part of principal or sinking fund contributions, were met from the proceeds of the gasoline tax.

During the war period several states have whittled down and

⁴⁶Kilpatrick (*loc. cit.*) says debt service has been undertaken on \$82 million.

others have increased their obligations for such local debt, but apparently no state in the South has launched a new plan. Arkansas, South Carolina, and Texas have continued to pay off obligations. Apparently Georgia and Tennessee⁴⁷ have slightly increased their debt in the sense that bonds have been issued to evidence assumption of eligible local obligations. As Florida is constitutionally unable to incur debt, the amount of local bonds on which the state in effect pays current charges has not been reported since 1941. (Some Florida agencies issue revenue bonds.)

In addition, certain states, all outside the South, have undertaken to service non-highway local debt obligations. In addition, too, several states, including Florida, Georgia, Kentucky, North Carolina, and Virginia, by 1940 had made grants for local debt service. Also many states had by 1940 purchased local bonds for trust or other funds; of the ten states which apparently had not done so, Alabama, Georgia, Kentucky, Louisiana, Oklahoma, and Tennessee are in the South.⁴⁸

It should be mentioned incidentally that several states, all with the exception of North Carolina being outside the South, have had certain debts on which local governments pay service charges wholly or partly. The North Carolina school house bonds so handled increased, according to Census reports, from \$4.9 to \$5.7 million, 1941-1943.

INTERGOVERNMENTAL FISCAL ORGANIZATION

During the war period few major changes in intergovernmental financial relationships have occurred in southern states. Such developments as have taken place are in the main continu-

⁴⁷ Bureau of the Census, *State and Local Government Debt: 1941*, p. 25, and *State Finances: 1942*, Vol. 1, "Georgia," p. 2.

⁴⁸ Kilpatrick (*loc. cit.*) classifies state-local debt facilities as (a) state assumption of local debt, (b) state payment of local debt service, (c) local servicing of state bonds, (d) state loans to local units, (e) state investment in local securities, (f) co-operative credit and reserve funds; but some of these categories are unknown in the South.

ations of previously established arrangements. Specific enlargements of existing governmental machinery may be referred to by way of illustration.

Under legislation prior to the war period Alabama had made provision for local assessment boards which have both valuation and review functions. The state Department of Revenue had been authorized to lend assistance to these agencies and to local assessors whose functions are primarily confined to list-taking. In practice little administrative action toward state-local cooperation had occurred prior to 1943. During that year the Department of Revenue convened a general conference of local assessment officials and enlarged its program for providing direct field assistance to local assessing officers. One feature of this plan was the exceptional assistance provided by the University of Alabama Bureau of Public Administration.

In Kentucky the supervision of local finances by the state government had gained considerable headway prior to the war period. The 1940-1943 years saw modernized accounting installations in a number of counties under the close supervision of the Department of Revenue. Also through the State Local Finance Officer of the Department of Revenue county debt difficulties have been largely cleared up except in a few unusual instances. This progress represents a continuation of advances begun some years earlier, but it moved forward at an accelerated pace in the early war period. For the past year little action toward aiding additional counties has occurred.

Notable in Kentucky also is the development of state-local finance reporting. Two specific illustrations may be cited. In the first place, Governor Keen Johnson in *Kentucky Government, 1939-1943*, Part 2, outlined a clear-cut policy of state-local relations which his administration had been following. He also set out with some care a summary of the developments toward "restoring financial health of Kentucky counties." In

the second place, the Department of Revenue report, *Administration of the County Debt Act*, presents in an admirable fashion not only the developments of the county financial improvement program but also constructive policies designed to enable the state to finish the job of restoring the integrity of county self-government.

Some of the minor provisions for state-local financial cooperation enacted by the 1942 General Assembly of Kentucky, such as one relating to local tax assessors' qualifications under the examination requirement, were repealed at the 1944 Session.

Florida has begun publication of reports on county finances, but the first such report evidences little imagination. On the other hand, the Virginia Auditor's volume on local finances has been improved, despite manpower shortages, during the war period.

IV STATE AND LOCAL DEBT

THE STATE AND LOCAL DEBT PICTURE

Debt trends in the southern states and localities in considerable measure resemble those in other parts of the country. On the whole before 1932 the local debt volume overshadowed state debt, but there was an increase in state debt and a decline in local debt between 1932 and 1940. Moreover, the outstanding obligations of municipalities remained approximately half the total state and local debt in all states. The debt of counties showed a considerable decline in the 8-year period, while the comparatively moderate debt of special districts showed a marked increase.

The relationship between gross debt and gross debt less sinking funds from 1932 to 1940 remained approximately constant. However, the accumulation of state sinking funds resulted in a three point lesser increase in net debt than in gross obligations. Likewise, municipal governments showed a greater decline in gross debt less sinking funds than in gross debt.⁴⁹

The overwhelming proportion of debt obligations outstanding has generally been evidenced by long term bonds; however, the proportion of short term debt declined between 1932 and 1940 from approximately 10 per cent to about 5 per cent of the total.⁵⁰

The reduction of state and local obligations outstanding has been accelerated from year to year since 1941. A study of details shown in the Census reports shows that city and township debt did not begin to decline until after 1941. Special district debt did not decline until 1943. On the other hand, county obligations, which were declining at the rate of nearly \$100

⁴⁹ Bureau of the Census, *State and Local Government Debt: 1940*, p. 19.

⁵⁰ *Ibid.*, p. 21.

million a year or approximately 5 per cent prior to the war, were slumping from 1942 to 1943 at the rate of more than \$200 million a year, or more than 11 per cent. Southern state net long term debt declined, 1941-1944, by 19 per cent; all states, by 21.1 per cent.

Although aggregate state and local debt declines in general obligation and revenue bonds are substantially the same, they differ as between states and local governments. In the case of state governments general obligations have declined about 8 per cent and revenue bonds by less than 6 per cent. Local government general debt has gone down less than have obligations secured solely by the earnings of particular enterprises. The evidence indicates that short term debt is rapidly being eliminated from both state and local government borrowing practice. State short term debt declined from 1942 to 1943 by nearly 96 per cent.

The changes which have just been sketched involve corresponding reductions in interest charges. Oddly enough, the reduction has been less in the case of local governments than has the cut in debt outstanding. It has been considerably greater in the case of state governments. Data are not available to indicate why, in a period of declining interest rates, local governments should reduce low interest rate obligations faster than those bearing a high rate.

EVOLUTION OF SOUTHERN STATE AND LOCAL DEBT⁵¹

The increase between 1922 and 1932 in local debt and, in most southern states, also in state debt was impressive. The picture in the country as a whole was mainly one of consistent advances in local debt but little increase in state debt, although the increase in the latter in a number of states was such that in the aggregate the rate of advance was relatively greater than for

⁵¹ See Table 11.

the total of local governmental units. It is of interest that every southern state showed a substantial upswing in state and local debt combined during this decade. From 1932 to 1940 local debt changed only moderately. However, in certain particular states the change was substantial; for example, the Arkansas local debt declined by about a third. Nine of the fourteen southern states, in fact, showed declines during the eight years ending 1940. It is of particular interest, too, in studying debt changes that in none of the years were the state debts more than nominal in Florida, Georgia, Kentucky, and Texas.

The changes which have occurred in certain southern states are of special interest. The Florida boom was reflected in that state's local government debt increase of five fold in the 10 years ending 1932. By 1940 due in a measure to debt compositions the total declined by approximately 20 per cent. In Louisiana debt obligations of the state government increased from \$84 million to \$192 million from 1932 to 1940, thereby reflecting the Huey Long public improvements. Meantime, the local government obligations outstanding showed a decline of around \$80 million. Tennessee, another state having a heavy outstanding debt, maintained state obligations with comparatively little change during the eight years ending 1940; but local debts increased more than \$80 million. Other interesting individual developments, most of which reflect eloquently a local social history, include the development of a more or less disorderly debt in Georgia, Kentucky, Mississippi, and Oklahoma. All these states apparently had by 1940 largely or entirely corrected their debt situation, although Mississippi and Oklahoma had incurred additional obligations as well. Florida was the only state for any of these years which had no debt whatever outstanding. However, the bulk of the debt of several other state governments was made up of revenue obligations

and did not from a legal point of view constitute a debt of the state itself.

THE DEBT LOAD

The trend

The approach followed thus far does not indicate the tendency in the debt load; for example, no allowance whatever has been made for changes in population. The period 1932-1940 reflected a decline in per capita gross debt in the average state of 2.2 per cent, which was brought about by combining an increase of 15.2 per cent in state debt and a decrease of 5.2 per cent in local debt. All the southern states except three reflected a decline in state and local per capita debt combined greater than that shown by the country as a whole. Moreover, Georgia and Kentucky, which increased their debt during the eight year period, still had respectively in 1940 the third lowest and the lowest state and local debts per capita of any states. The Tennessee debt, which also increased, was moderately high.

Status in 1940

By 1940 Kentucky and Georgia were two of the four states in all the country which had outstanding state and local gross debt of less than \$50 per capita. As previously indicated, the Kentucky per capita debt was the lowest of any state. Moreover, 6 additional states among the 14 in the South had outstanding debt of between \$50 and \$100 per capita. Only 11 states outside the South had a per capita debt level between \$50 and \$100. Texas, Arkansas, Tennessee, and North Carolina had a gross debt obligation, state and local, of \$100 to \$150 per capita, or the middle category of state and local debt obligations in the states generally. Only Florida and Louisiana had more than average state and local gross debt per capita in

the sense that the Census Bureau classifies them in the upper two of five debt brackets.⁵²

Perhaps the relative debt load is more adequately reflected by the ratio of per capita debt to the per capita income in the same state. By this test the debt load in southern states appeared in 1940 to be distinctly more onerous than by comparison on a per capita basis. This is to be expected, of course, because the per capita income in the South is much lower than in the country as a whole. Alabama, Arkansas, Florida, Louisiana, Mississippi, North Carolina, South Carolina, and Tennessee, all had a higher than average debt load as measured by the ratio of outstanding gross state and local debt to income. The remaining states were below the average of all states, but the Texas gross debt was almost identical with the average.⁵³

In 1937 Edna Trull⁵⁴ developed an index of debt-paying capacity based on the percentage of population making federal income tax returns, weighted three; percentage of population making returns over 5,000, weighted one; retail sales per capita, weighted four; gasoline consumption per capita, weighted one; motor vehicles per 1,000 population, weighted one; estimated taxable property value per capita, weighted three; savings deposits per capita, weighted one. This index was used to measure existing debt loads, and some interesting results were developed. Of the southern states, Florida, Arkansas, Mississippi, North Carolina, Louisiana, Tennessee, South Carolina, and Alabama ranked at the very top in ratio of debt load to estimated debt-paying capacity. In addition, Texas and West Virginia ranked above the average of all states. Oklahoma and Virginia ranked below average and in

⁵² This analysis is based mainly on the Bureau of the Census, *State and Local Government Debt: 1940*, p. 5.

⁵³ Cf. Edna Trull, *Resources and Debts of the 48 States, 1937*, New York: Dun & Bradstreet, Part 3.

⁵⁴ *Loc. cit.*

the third highest 25 per cent. Only Kentucky and Georgia ranked among the lowest 25 per cent of all states. Although the author of that study freely admits that there is an element of the arbitrary in her rankings, it is probable that they are more dependable as a measure of debt load than are per capita debt and debt per thousand dollars of income. In any event, the fact that the index is published by Dun and Bradstreet for the guidance of investors may be significant.

On the whole, therefore, it may be concluded that the relatively low per capita debt of southern states and their municipalities and subdivisions in 1940 was somewhat misleading in terms of the relationship between the debt level and the capacity of the population to discharge public obligations.

SOUTHERN WARTIME STATE DEBT

The decline in outstanding long-term net state debt⁵⁵ from 1941 to 1942 was on the whole less rapid in the southern states than in the average of all states. The difference apparently is explained by a reported increase in outstanding long-term state debt of more than \$14 million in Oklahoma. On the other hand, the reduction in such debt apparently was greater in 1943 as compared with 1942 in the southern states than in the average of all states. It will be observed, moreover, that those southern states such as Arkansas, Louisiana, North Carolina, South Carolina, and West Virginia having comparatively heavy outstanding debts have reduced their bonded obligations consistently. The explanation of this development appears to lie in the necessity of reducing certain types of expenditures by reason of war conditions and in the desire to retire debt and thereby build up a reserve in the form of borrowing power to meet possible postwar construction emergencies.⁵⁶ The North

⁵⁵ Long-term net debt data are available on a comparable basis only for recent years. See Table 12.

⁵⁶ Bureau of the Census, *State Finances: 1943*, "State Debt on June 30, 1943," p. 1.

Carolina Legislature of 1945 recently earmarked sufficient state funds in the treasury to retire all the remaining state debt.

LOCAL NET LONG-TERM DEBT DURING THE WAR

During the war period city debt in the case of those municipalities having more than 100,000 population—the only ones reported for all war years—has decreased from 1941 to 1942. However, whereas there was a considerable decline in the country generally, in the cities having populations of 100,000 to 500,000 the decline in the South was purely nominal. Moreover, although the reduction throughout the country in cities of this size continued, though at a reduced pace, there was an absolute increase in southern cities from 1942 to 1943. The upswing would not have occurred but for a nearly \$30 million addition in San Antonio. The aggregate increase amounted to only about \$11 million. The explanation of the erratic upswing in San Antonio is not known to the author.

Information regarding county and district debt statistics in the southern states is available only sketchily. The figures at hand suggest that such jurisdictions' indebtedness has declined, but probably at a less rapid rate than for the country as a whole.

V

GENERAL FISCAL ADMINISTRATION IN THE SOUTH.

DEVELOPMENT OF BUDGETING

The budgetary process is the most pervasive phase of financial administration. In many respects it is the most important. The development of state and local budgeting may be regarded, therefore, as peculiarly significant for understanding the evolution of the public finances.

For a hundred years the budgetary machinery of Great Britain and of certain other European countries has been in continuous but far from static operation. Until the second decade of the present century such financial planning as existed in Europe was all but a complete stranger to American practice. In general, the earliest developments in this country occurred in the municipal field despite efforts in the federal area under the leadership of President Taft. By the early 1920's a number of cities had well established, if somewhat embryonic, budget plans in full operation. With the subsequent development of state municipal leagues, the Municipal Finance Officers' Association, the International City Managers' Association, and other agencies of municipal improvement, coupled with advancements in budgetary thinking, many cities have made exceptional forward strides in budget administration. There are many even today, however, which are substantially without a financial plan.

Southern practice

In state budget making, initial progress was slower than in cities; and, notwithstanding an act passed in Arkansas in 1913, the southern states were not leaders in the movement. In fact, no southern state made provision for an executive type budget before 1918. In the succeeding 10 years, however, every south-

ern state except Arkansas⁵⁷ enacted legislation providing for some type of budget; and most states by the beginning of World War II had authorized a more or less modern plan.⁵⁸ Although most states in current practice adopt their budgets for two fiscal years, Mississippi seems to be the only southern state which provides for a *budget period* of two years. The other states simply plan finances for each of two separate fiscal years in advance.⁵⁹

Most county governments cannot fit a modern budget concept into their constitutional structure. It is not surprising, therefore, that southern counties either get on without systematic financial planning and control machinery or have adopted makeshift schemes. Counties, in states which have encouraged them to do their best, have been effective in fiscal planning, if at all, owing mainly to state supervision and occasionally to vigorous local leadership rather than to any merit the budgetary machinery may have. There have emerged, however, a few clear exceptions illustrated by the county-manager and county-executive counties of Virginia. These counties in the early 1930's adopted governmental plans under which a chief executive responsible for fiscal administration was provided. Each has a reasonably effective budget plan now in operation.⁶⁰

Changes in budgetary concepts

It must be understood that adoption of a budget does not mean maturity in fiscal planning and management. As a mat-

⁵⁷ Arkansas has a constitutional provision interpreted administratively as requiring the earmarking of tax revenues. Arkansas, therefore, is virtually prohibited from having a modern budget plan.

⁵⁸ Emphasis is placed on the executive type budget because the legislative and board types represent primitive conceptions. See A. E. Buck, *Public Budgeting*, New York: Harper, 1929, especially pp. 284 ff.; and Rene Stourro, *The Budget*, translation of the seventh edition, New York: Appleton, 1917, especially pp. 53 ff.

⁵⁹ Cf. James W. Martin, "Outlook for State Budgets," *National Defense and State Finance*, Tuscaloosa: University of Alabama, 1941, pp. 102 ff.

⁶⁰ George W. Spicer, "Fiscal Management under the County Optional Forms Act of 1932," *County Government in Virginia*, University, Va.: Bureau of Public Administration, 1942, pp. 27 ff.

ter of fact, the plans invoked in many states, cities, and other governmental units are inadequate and incomplete in many respects; however, since the early 1920's there has been marked development. Certain illustrations will suffice to make the point clear.

(1) In the years immediately following World War I most of the so-called budgets were documents setting out a tabulation of proposed expenditures. They were not, and did not purport to be, comprehensive plans for the financing of the governmental unit. During the 1920's and 1930's the idea of a full-fledged budget report gradually spread until at the present time most state and many local governmental units prepare a document which includes both revenue and expenditure estimates.⁶¹ In addition, it is increasingly taken as a matter of course that full analysis of fiscal status, including debt conditions, must be invariably presented in the budget document.

(2) The fiscal plan reflected in state and local budget documents too often falls far short of an all-inclusive financial program. In the 1920's most such documents gave detailed attention to the so-called "general fund" only. As the years passed, the states and local governmental units made marked progress toward greater inclusiveness. In general, success on this score was greatest in cities. A recent study shows that even in 1943 documents only half of the eight southern states for which information was available to the United States Bureau of the Census showed that the major share of all expenditures was reflected in the state budget documents.⁶²

(3) There have been in the two decades 1920-1940 marked

⁶¹ In a recent study of state budgets, including those of eight southern states, the U. S. Bureau of the Census found that all except one included revenues in 1944 or 1945 budget documents; but of a total of 27 other states 10 did not include revenues. "State Budgets for 1944 and 1945," *State Finances: 1943*, Vol. 2, No. 1, Mar., 1943, Table 5.

⁶² V. J. Wycoff, "Budgeting State Finances for 1944 and 1945," *Taxes—The Tax Magazine*, June, 1943, pp. 316 ff.

changes in the conception of budgetary processes and functions. In some degree these changes correspond with the developments which have taken place in the documents prepared. (a) The budget idea prevailing in the early 1920's rested essentially on the restricted view that there ought to be an approved plan merely of public expenditures, that the executive branch of government should not be expected to spend the year's appropriations without first thinking through a program.⁶³ In some cases the view that the legislative branch of government must approve the plan was implicit in the discussion. (b) The next development represented the same type of thinking and in addition involved the concept that there should be a balance of revenues and expenditures, that a *plan* must incorporate provision for sufficient revenue to provide for all expenditures. (c) The third step in budget practice reflected the budget idea as a process rather than merely as a document; it also incorporated the notion of negative administrative control. The budgetary process, it was thought, includes preparation of estimates and formulation of a document embodying a financial plan, presentation of the fiscal program to the legislative body in a "budget message," approval of revenue and appropriation bills for the ensuing year or biennium, and administration of the approved program. In this stage, administration involves mainly restrictive control to prevent over-spending by functional agencies.⁶⁴ (d) The fourth stage in the evolution of the budget idea is currently emerging in the South and is as yet exemplified in comparatively few state and local governments. Under the new conception, budgeting includes all that has just been outlined but with altered distribution of emphasis and with

⁶³ This conception was freely discussed in connection with county budgeting in Kentucky as recently as 1934.

⁶⁴ The elements in such control are outlined in R. Emmett Taylor, *Municipal Budget Making*, Chicago: University of Chicago Press, 1925, p. 18. For a recent discussion of one state's experience predicated on this approach see "Looking Backward Fifteen Years," *We the People of North Carolina*, May, 1943, pp. 6 ff.

new features. In the first place, the idea of positive control largely replaces prohibitions. The task of the budget officer and of the chief executive in administering the financial plan becomes that of seeing that every variety of assistance possible is rendered each spending agency so that maximum service will result from each dollar spent; safeguards against the over-spending or the under-collecting of revenue are secured as a by-product of direct, positive helpfulness to functional agencies. In the second place, under the modern conception the budget becomes an instrument of general governmental administration rather than *merely* a financial plan and its operation.⁶⁵ Of course, one of these conceptions did not succeed the other in regular, chronological sequence. The changes have occurred at different times in various places. In fact, budgeting in many cities, counties, and some states continued to the war period in the most primitive stage, and very few governmental units ever fully developed the fourth.⁶⁶

⁶⁵ One of the early developments of the modern conception occurred in Dallas. See *Budgetary Regulations. Cf. Municipal Finance Administration*, Chicago: Institute for Training in Municipal Administration, 1941, pp. 84-85. Probably the most adequately developed concept of the service and general control functions of state budgeting is exemplified in Virginia. See Rowland Egger, "Constructive State Economy," *The Commonwealth*, Jan., 1940, pp. 13 ff.

There is some evidence that Henrico County, Virginia, invokes the general control idea of the budget. See Willard Day, "Manager Government from the Point of View of a Manager," *County Government in Virginia*, University, Va.: Bureau of Public Administration, 1942, pp. 15 ff.

In Keen Johnson (Governor), *Kentucky Government 1939-1943*, pp. 52-54, the following passage occurs: "Budgeting in present Kentucky practice means (1) planning programs for welfare activities, for conservation, for education, and so on; (2) ascertaining cost of the program; then (3) submitting to the Legislature proposed means of financing the work. It includes (4) revisions of work programs required by the General Assembly and includes (5) particularly carrying out of the plans thus made and approved.

"The State budget is the most important financial instrument in the hands of the Governor, not only for controlling finances of the Commonwealth but also for managing the entire program of activities." (Italics are found in the original.)

⁶⁶ A definite outline of some possibilities of the service viewpoint is developed in James W. Martin, "Administrative Coordination through a State Finance Department," *Proceedings of the Institute of Government Management*, 1941, pp. 106 ff. David L. Robinson in a discussion before the Citizens Conference on Government Management in 1941 (unfortunately not printed in the *Proceedings*) gave a full and lucid explanation of the budget as an instrument for general administration as distinguished from merely fiscal control. See also Catheryn Seckler-Hudson (ed.), *Budgeting: An Instrument of Planning and Management*, Washington: American University, 1944.

BUDGETING IN WARTIME

For the most part wartime developments in southern budget practice have resulted from (a) dynamic personal leadership, (b) need for exceptional war-caused fiscal readjustments, and (c) decline in the number and quality of staff workers. War conditions have not produced the first factor, but perhaps they have contributed toward the emergence of certain leaders. The readjustments which conditions have necessitated concern all phases of financial management, ranging all the way from meeting sanitary requirements in new factory districts to providing extraordinary appropriations for debt service reserves. The personnel losses have been expensive in those states, counties, and cities in which there has been an undue scarcity of clerks; they have been almost fatal to maintenance of efficiency in those in which key men and women have been sacrificed to the military or to war industry needs.

State budgets

Most southern state governments have effected little modification in budget practice during the war period, but some states have made significant changes. There appears to have been a definite change in emphasis on budgeting in certain states. Alabama has shown decidedly more vigor in budget administration during the war period than at any time previously. In Kentucky there was an unprecedented and growing stress on financial planning and management after about 1940, although the emphasis was reduced during 1944. Also, the Kentucky conception of the executive budget appears to have been modified⁸⁷ in a manner calculated to lessen the significance of the executive in budgeting. Virginia, in which the budgetary concept and the vigor of management activity was

⁸⁷ This has reflected a political sentiment adverse to "dictation by the Governor's office." James W. Martin, "Current Developments in Kentucky State Budgeting," *Southwestern Social Science Quarterly*, Dec., 1944, pp. 197 ff.

farthest extended of any state in the South, seems during the war period to have curtailed the scope of budgetary action somewhat; however, the Old Dominion continues to maintain efficient overall planning machinery.⁶⁸

A second class of changes reflects itself in budget documents. In Kentucky the 1944-46 budget document omits an analysis of fund balances, which appears to be required by statute and which had previously been presented.⁶⁹ In South Carolina the budget document undertakes to reflect rather fully the views of operating departments. Though an improvement over pre-war years in both appearance and content, South Carolina's current document lacks a general budget summary, evidences no definite placing of fiscal responsibility, and presents data with little statistical imagination. The Tennessee budget documents have continued to exhibit improvements in form. The practice in that state stems from legislation enacted in 1937 and 1939 and fully effective with the beginning of the war period. The Governor's message is still presented in a formalistic and abbreviated form, but lack of a full financial policy statement in the message is partly compensated by explanations in the body of the report. This document, like the Kentucky and South Carolina budget statements, lacks a general summary.

The war period has presented unusual problems of "budget balancing" for most states of the South. The income and sales tax revenues have increased sufficiently in most states to offset losses in gasoline and motor registration taxes—and to provide a net gain in totals. In any case, gasoline and automotive taxes are earmarked for roads in practically all instances.

⁶⁸ Cf. Rowland Egger, *loc. cit.* and "Power is not Enough," *State Government*, Aug., 1940, pp. 149 ff. with recent budget messages incorporated in the state budget documents.

⁶⁹ See, e.g., *Executive Budget, 1942-1944*, pp. 14-15. A possible alternative explanation is that another schedule satisfies the law and the reasonable needs.

The non-highway revenues have advanced remarkably. Meantime the needs of the states have not declined. However, the expenditures have gone up little or not at all because many kinds of materials and workers could not be secured. State general funds have thus enjoyed a surplus of revenue above expenditures.⁷⁰ The states could choose between three budget policies: (a) reduction of taxes, but such a plan would have operated as a measure adverse to federal fiscal policy and would have invited future difficulties; (b) increase in expenditures for undersupported activities, but such a policy could not have been sustained after the war without probable painful readjustments; or (c) accumulation of cash or credit reserves. The third course has been adopted in most states, though each has been followed in some states of the South. North Carolina and Virginia have been among the most eloquent proponents of reserves. Several states have made minor—and in West Virginia, for instance, major—tax reductions. Several other states have increased certain expenditures, notably those for welfare and education. The policy in respect of budget balancing has influenced the complexion of budgetary control practice.

With regard to budget administration in the narrow sense of carrying out the approved plan, some loose practice might be expected in the light of the easy financial conditions in most southern states, and some lack of economy has been apparent. However, there is gratifying evidence of more effective control in certain states. Probably the most unusual solicitude for sound economy has been exhibited in recent Alabama procedures. The Director of Finance and the budget officer of that state have vigorously investigated the needs of all state

⁷⁰ Bureau of the Census, "Balances in State General, Highway, and Postwar-Reserve Funds in 1943," *State Finances: 1943*, Vol. 2, pp. 4, 5 and Table 4. From these data it would appear that every southern state except Texas enjoyed a surplus of general fund revenue over general fund expenditures as early as fiscal 1943, though in Georgia apparently some of the surplus of 1942 was expended in 1943.

institutions and agencies to enable them to manage budgetary allotments, as well as to make recommendations for appropriations, in the light of public service policies and needs. They have not hesitated to provide for increased expenditures in certain directions when convinced that sound economy demands it. They have been placed in a position to restrict unwise outlay with increased discrimination. In South Carolina the Budget Commission for the first time has been recently exercising close control over individual salaries, including those in state educational institutions. By continuous effort the budget officer of Tennessee has prevented wasteful expenditures and so has saved the taxpayers a goodly amount.

Oklahoma and Texas have recently changed their budget practice constructively, but they have perhaps unwisely rendered the new provisions inflexible by placing them in the state constitutions. Under an amendment adopted in 1941, Oklahoma has been required not only so to control the budgetary operations that no deficit is incurred but also to encumber only cash actually in the treasury. This plan seems to guarantee solvency but also to assure wasteful cash balances. Texas adopted a constitutional amendment, effective January 1, 1945, which requires that expenditures be kept within the receipts estimated by the elective comptroller.⁷¹ Under the Texas plan control through encumbrance of allotments is provided.

Local budgets

The immediate impact of the war on local budgetary practice was distinctly jolting. The cities confronted on the one hand increased revenues (in most cases), due largely to easier tax collection, and also decreased expenditures for construction. On the other hand, they had to meet higher costs of materials

⁷¹ The Board of Control is purportedly the state's budget agency, so that the intervention of the comptroller appears to evidence a duality usually considered inconsistent with sound budget practice.

and supplies, increases in employees' salaries, and, in many cases, extraordinary rises in certain service costs. For example, Mobile's expenditures for street maintenance advanced over 150 per cent. The average advance in street maintenance expense in a large number of southern war-industry or army-camp cities of all sizes has approximated 50 per cent. In many communities the number of children in school has been multiplied; in others, halved. The shifts in counties' financial conditions, though generally less extreme, have been somewhat the same. Under the circumstances there was a possibility that construction would be suspended and the money formerly spent for that purpose would be used to provide new services or to enlarge existing ones.

Fortunately, a large number of cities has chosen to pay off debt or accumulate reserves or both. Increases in personnel costs, so far as they have been permitted, almost invariably mean cost-of-living salary adjustments, not more employees. The budgetary management policy—so far as pressure for increased employees is concerned—has been facilitated by the manpower scarcity. Cities in general have been slow to increase pay rates. In many cases the result has been loss of skilled workers. Higher pay has subsequently been authorized and lost workers replaced at increased salaries by persons of inferior ability and training and, of course, wholly lacking in acquaintance with the particular job. Notwithstanding this difficulty, city readjustments have on the whole been reasonably successful; school districts have been less successful; and counties have been least successful of all.

In municipal budgeting, the war has brought about a distinct advance in one particular. Prior to the 1940's municipal budgeting in all except a handful of places was confined to the next fiscal period. The wartime emphasis on postwar thinking has led to the development of longer range fiscal planning, espec-

ially for outlays. From all parts of the South come enthusiastic after-war construction programs, many of them supported by definite financial blueprints. This projection of fiscal planning is the case to a much less extent in county government.

Preparation of budget manuals has apparently been speeded up by the wartime turnover of employees. The budget officers who, like their colleagues, have very few experienced workers almost have to have an orderly means of instructing new recruits in their own as well as in other offices. The procedural manual is one approach much needed in both war and peace. Perhaps the most significant of the new manuals is that for Texas cities written by Mr. Bill N. Taylor of Port Arthur and recently issued by that state's municipal league. Individual cities and a few counties have prepared and used such directions. Several states have prescribed and published procedures for counties and a few other states have done so for cities.

Outstanding progress has been made in a few cities and counties during the war period. In Johnson City, Tennessee (about 25,000 population), a truly remarkable job of budget administration is reported. During the war years public services have been greatly improved; the annual deficit has been replaced by a sizeable surplus; and the tax rate has been cut from \$3.00 to \$2.65.⁷² Houston, Texas, has recently been publishing its monthly financial report as an aspect of budget administration policy. Port Arthur, Texas, has initiated what appears to be practically model budget planning and control. Chattanooga, under its county manager government, adopted in 1941, has made marked budget administration improvement. Texas in 1944 amended its constitution in such a manner as to increase flexibility of local tax revenue control.⁷³

⁷² Tennessee Taxpayers Association, *Eleventh Annual Report*, 1942, pp. 11-13, and *Twelfth Annual Report*, 1943, pp. 9-10.

⁷³ It should not be inferred from the use of Tennessee and Texas examples that all changes, and particularly all improvements, have occurred in those states.

ACCOUNTING IN EVOLUTION

In view of the commonly accepted truism that any business executive, public or private, is unable to control subordinate activities in the absence of good accounts, it is of interest that governmental record keeping was for a long time consistently far behind private performance. Only in recent years have southern states been successful in working out marked improvements in their own and their subdivisions' bookkeeping practices.

Background

Initial major improvements in accounting as in budgetary practice came first in cities. As a matter of fact, modernizing accounts to a degree was a by-product of the attempt to build up sound budgetary practice. The effort to refine fiscal planning proved largely futile as long as accounts reflected only receipts and disbursements of cash—and perhaps even these incompletely. It was found, for instance, that the volume of obligations incurred near the year-end and not paid for until the new year might vary widely—by design, as in the case of a retiring administration which might make its successor shoulder the responsibility for wasteful spending, or by chance. Keeping accounts on an encumbrance basis so that the record would show expenditures when the city became obligated was a logical step. A few of the progressive municipalities developed such a modernized plan prior to the mid-1920's. Since that time many others, partly on their own motion and partly as a consequence of state supervision, have followed suit. Today, nevertheless, many of even the larger cities have no current record of obligations as they are incurred. Most of the smaller cities reflect in their books only cash receipts and disbursements.

Southern state governments did not begin to vitalize their accounting as early as did cities, but in the late 1930's they

showed more rapid gains. By 1941, in fact, most of them had greatly improved record keeping practices; and a number had installed up-to-the-minute systems. The character of the revision which the states needed was partly identical with that required by cities, but states confronted more pointedly the problem of securing record control over their geographically scattered institutions and activities. In some states the plan actually installed has integrated all accounts into one state finance office; in others, it has provided only that control accounts be centralized.

The accounting practices of counties and of other taxing districts have changed slowly or not at all. In fact, bookkeeping in many counties has been almost as sketchy as a hundred years earlier. Even this "dark continent of American government," however, has shown some recent progress. In a few cases, advances have resulted from local taxpayer pressure; but perhaps most of the gains have been the consequence of state supervision. Every southern state has some state supervision of local records, though in some cases the authority is very slight. In others, however, it is considerable. For instance, Kentucky in 1934 prescribed a semi-uniform plan for the use of cash receipts and disbursements accounts. As county procedures improved and as the state supervisors gained the confidence of local officials, it was possible to take more constructive steps. Accordingly, in 1940 the Kentucky Department of Revenue prescribed a modern plan for encumbrance budgetary accounts to be adopted voluntarily by the several counties. About 20 per cent of them installed it with the State Department's collaboration. As anticipated, the structure of the county government has impeded success; but the really interested counties have made marked progress.⁷⁴

⁷⁴ The supervisor, the State Local Finance Officer of Kentucky, recommended that the General Assembly provide, as far as is constitutionally possible, for integration of county administration. A definite plan is proposed. *Report of Kentucky State*

Wartime changes

Accounting in southern state and local governments has changed little during the war period. This is also true as to state supervision of local records.

Perhaps publication of Fladger Tannery's book on state accounting has been the most significant wartime development in this area. This book by a University of Texas man is the first general examination of state government accounting. In several southern states⁷⁵ there have been minor changes. However, it appears that far the most significant development in any state has been the installation of a completely new system in Louisiana pursuant to the Fiscal Code of 1942.⁷⁶ The system undertakes to control (a) *revenues*, mainly but not wholly on a cash basis; (b) *expenditures* by encumbering every obligation against allotments after a pre-audit; (c) *payments* from the treasury; and apparently (d) *permanent properties*.⁷⁷

The system appears to approach the effectiveness of the best state installations, though Finance Director Reiley⁷⁸ suggests that the system has not been in operation long enough to avoid elements of friction.

Wartime changes in local accounting practice have occurred as a result of (a) state supervisory effort and (b) local initiative. As to the former, the Alabama Department of Finance took significant action. Building on progress that has been more or less continuous during the war period, the department in 1944 installed for all counties an inventory record of non-

Local Finance Officer, 1943, p. 47; cf. Department of Revenue of Kentucky, *Report, 1939-1943*, pp. 67 ff.

⁷⁵ As to early war period changes in Alabama, see Paul E. Alyea, *Alabama's Balancing Budget*, University: University of Alabama, 1942, especially chap. 7.

⁷⁶ A clear outline, which furnishes the basis for the discussion in this paragraph is found in James S. Reiley, "Safeguarding Public Funds," *Proceedings, First Annual Conference, Department of Revenue, Baton Rouge, 1944*, pp. 21 ff., especially pp. 23-37.

⁷⁷ On the last point the writer lacks full information.

⁷⁸ *Op. cit.*, p. 28.

expendable property and equipment. The Kentucky Department of Revenue during early war years followed its early installations of encumbrance accounts in particular counties with systematic field assistance in keeping and using the books, but this service became a war casualty in fiscal 1944. Oklahoma has eliminated earlier wasteful requirements of expensive city accounting forms. Tennessee, a state which has gone a long way toward achieving a completely modernized state accounting system, has not put into operation the mandatory requirements of the 1937 legislation to require state assistance in county accounting control,⁷⁹ though the Governor appears to have made an abortive move in 1942 to implement the law.⁸⁰ Early in 1945 thoughtful citizens of Tennessee expressed concern that the Governor should have displaced the unusually efficient Director of the State Department of Accounts. Through the persistence of the Virginia State Auditor, that state's counties and cities appear to have made unspectacular but solid progress in accounting efficiency. As to the other states, there is little available evidence of accounting progress through state assistance to local governments.

Regarding locally initiated, wartime improvements in accounting, evidence is meager. Alabama has one or two boom municipalities which have installed modern accounting plans. Through 1942 "scores of cities" in various parts of the country revised record keeping installations. Nashville, Tennessee, completed such a revision more recently. In Tennessee several cities and counties have secured special acts of the legislature to authorize accounting installations and other financial management changes. Although in form these actions came from the state, they are the result of local initiative. Houston, Texas, has reclassified its accounts to bring the system into substantial

⁷⁹ Acts of 1937, chap. 300, the "Cash Basis Act." Tennessee Taxpayers Association, *Twelfth Annual Report*, p. 22.

⁸⁰ Tennessee Taxpayers Association, *Eleventh Annual Report*, p. 14.

accord with the recommendations of the National Committee on Municipal Accounting. All cities have had to adopt or reorganize pay roll procedure to conform with first the victory tax and later the federal income tax withholding plan. For cities which already enjoyed modern pay roll installations the change was minor; for many cities it was a major operation.

It is appropriate to remark incidentally that the war period has witnessed some interesting and significant developments in financial reporting. Perhaps most meaningful of all are the greatly improved publications regarding state and local finances issued by the Division of Governments of the Bureau of the Census. The major improvements occurred in the reports of 1937 data and again in those of 1941 figures. The special reports for 1940 and later years and the 1942 "compendium" volumes represent a development the significance of which is fully reflected in the present study. Every recent year some new and valuable kind of information comes from the division. As to state and local reporting for the South specifically, a few examples should be mentioned. The Commissioners of Finance and of Revenue of Alabama published a highly significant and attractive joint report for 1943. Under 1941 legislation the Florida Comptroller recently published his first report on county finances as of the end of fiscal 1942. Its form resembles that of the Virginia report, but it is much less effective. Two significant publications on Kentucky finances are *Kentucky Government 1939-1943*, in which the Governor sets out a general policy, and the 1943 report of the State Local Finance Officer, which certainly maintains the excellence of that state's Department of Revenue publications. A recent Louisiana Department of Revenue symposium gives an unusually full picture of state finances by various state officers and employees. The State Auditor of Virginia has gradually improved the caliber of his reports. Probably the best single

example of Old Dominion fiscal accounting, however, came from the Comptroller early in the war; the last report from that office, though superior to the usual, was less attractive. Beaumont, Houston, and Port Arthur, Texas, and several of the Virginia cities have done much to advance the level of municipal reporting. Some small cities in Alabama, Georgia, and Tennessee have also shown improvement.

DEVELOPMENT OF PURCHASING ADMINISTRATION

Background

Before World War I southern states had made some progress toward centralized purchasing,⁸¹ but administratively none of the states had made much headway. There occurred in the 15 years following the war a widespread drive for better business methods in both state and local government.⁸² The result in general was definite improvement in purchasing legislation and in a number of states and in many local governments also in purchasing practice. In fact, by 1931 the highest authorities tacitly accepted centralized purchasing operating under businesslike management as an obvious necessity if success was to be obtained.⁸³

⁸¹ Institute of Government Research of the Brookings Institution, *Financial Administration of the State Government of Alabama*, Washington: Brookings Institution, 1932, pp. 327 ff. and *Report on a Survey of the Organization and Administration of State and County Government in Mississippi*, Jackson: The Research Commission, 1932, p. 393.

⁸² *Cf.*, e.g., in addition to the Alabama and Mississippi reports (*loc. cit.*), National Institute of Public Administration and the Bureau of Municipal Research, *Findings and Recommendations on a Survey of the Administrative Structure of the State Government of Arkansas*, p. 16; Searle, Miller Co., *Report of a Survey Relating to the Proposed Administrative Reorganization of the State of Georgia*, New York: author, 1930, p. 13; Efficiency Commission of Kentucky, *The Government of Kentucky*, Frankfort: the Commission, 1924, pp. 139-151; J. E. Brindley et al., *Survey of State Finance of the State of Oklahoma*, Oklahoma City: Oklahoma Tax Economy Association, 1932, p. 42; Haskin and Sells, *Auditors' Report of Progress*, Nashville: Author, 1931, pp. 6 ff., 80-82; Griffenhagen and Associates, *Government of the State of Texas*, Austin: Joint Legislative Committee on Organization and Economy, 1933, Part II, pp. 34 ff.; James E. Pate, *State Government in Virginia*, Richmond: Appeals Press, 1932, pp. 129 ff.; and West Virginia State Tax Commission, *Report, 1927 Session of the Legislature*, pp. 159 ff.

⁸³ Russell Forbes, *Purchasing Laws*, New York: National Association of Purchasing Agents, 1931, pp. 5 ff.

Progress toward better purchasing took three forms. The most obvious in the light of historical conditions was improvement in the existing disintegrated purchasing by individual departments and institutions. Many reports of such progress are found, and many individual agencies achieved real purchasing efficiency on this basis.⁸⁴ Although an individual department or institution may achieve success independently, there is little evidence that a whole state or local government can do so. Moreover, as the Texas survey emphasized, no single department or institution can secure *all* the economies of state or local integrated (centralized) purchasing.

As an incident to the general drive for state and local government integration, the second form of purchasing progress involved making purchasing a phase of general financial management and so setting up the purchasing office in the state or local finance department. This form of organization, the most usual among well managed southern governments, has several advantages: (a) It is one step toward tying the machinery into a closely knit whole so that, among other things, the chief executive does not have too many functions to supervise; (b) often the plan makes removal of the purchasing machinery from spoils practicable; and (c) the state or city which follows this plan and also employs modernized budgetary accounting and pre-audit practice finds it easier to operate the financial management program as a whole. Such a scheme of integration, especially in a state or local government which is hamstrung with spoils personnel, is subject to one major objection: The caliber of the department head as a finance administrator, as distinguished from his stature as a political figure, often renders efficient purchasing under his supervision impossible or at least impracticable. Sometimes also the compensation

⁸⁴ E.g., the Texas survey (*loc. cit.*) complimented the highway department on this score.

plan under such an organization is such as to discourage selection of an efficient purchasing agent. This consideration, however, is doubtless minor. Despite objections this organization is usual.⁸⁵

The third plan of organizing a centralized purchasing service is to place it under a purchasing agent reporting directly to the chief executive. Such a plan in form at least puts a governor or a city manager more directly on the spot than does the finance department plan. If conditions in a particular state, county, or city are such that the purchasing agent can under the plan of direct reporting be appointed and kept in office on a merit basis, it is not seriously objectionable on any ground other than the fact that it impedes general fiscal control. The arrangement is least unattractive in principle in small governmental units under a manager plan where the number of separate departments is small and where the manager maintains direct control over accounting, pre-audit, and the budget as well.⁸⁶

Even by 1940, however, many southern governmental units—cities, school districts, counties, and even states—still suffered from shortcomings in their purchasing administration. Many of them still had the unreformed disintegration of purchasing under which small items were typically bought by clerks on a hit or miss basis and larger ones often on the basis of political favoritism. In other cases, there had been a partial centralization which, however, neglected certain important matters and

⁸⁵ "There is a marked tendency to establish the purchasing office as a division in the finance department." Russell Forbes, *Organization and Administration of A Governmental Purchasing Office*, New York: National Association of Purchasing Agents, 1941, p. 11.

⁸⁶ The state of Tennessee replaced an earlier finance department organization with a department of purchasing reporting directly to the Governor. The unbiased critics seemed to regard the new plan as preferable under local conditions, and it certainly made some progress under strong, honest leadership from the Governor's office. Significantly, however, reports indicate that the department abandoned the use of standardized specifications.

which often was impossibly impeded by statutory and political conditions. In other cases, there was statutory centralization but actual disintegration. Finally, and perhaps most fundamentally, there was administrative inefficiency or even dishonesty. Thus, although much progress in buying for state and local government requirements had occurred by the end of the 1930's, this was an area which still offered in 1940 much room for further improvement.

WARTIME PURCHASING

To a greater extent than in any other field of financial administration state and local purchasing developments during the war have been undramatic. In fact, it seems that in no more than three or four states have changes in purchasing attracted general attention—even among public finance specialists. State practice in a few states, however, should be mentioned.

Recently Alabama, Kentucky, and South Carolina have maintained state insurance of the state's own property. Alabama reports an insurance saving in fiscal 1944 of over \$237 thousand and an increase in the insurance fund of over \$100 thousand. Alabama also reports a saving due to automobile mileage control plan of over \$600 thousand in the 18 months ended June, 1944, as compared with the preceding 18-months period. This was a distinct war measure, but it was helped along by an economy-minded administration.

In Kentucky in 1943 state centralized purchasing practices were publicly attacked. An outside, public investigation followed; but the investigation reported no irregularities beyond certain evidences of carelessness. It is reported that some increased care was given the problem in the following months. Recently there have been expressions of dissatisfaction with state purchasing in the same state; but objections appear to

arise from administrative formalism which impedes functional activity, especially under wartime conditions, rather than from any suggestion of irregularity.

There has been a marked increase in purchasing efficiency in Tennessee during the administration just closed. The achievement is on the whole favorably regarded by Tennesseans. On the other hand, citizens of that state who commend the general accomplishments of the department refer with regret to its unannounced abandonment in recent years of standardized specifications for goods procured.

In local purchasing practice, the most significant development is probably that which has recently occurred in Alabama. There the State Department of Finance has made its facilities available to school boards in the purchase of tires and tubes and in recapping service. The state has had an advantage not only in prices⁸⁷ but also in making available tires of a size the schools could not independently have secured for their buses.

A small number of cities over the entire South and a few Tennessee counties have made marked progress in local purchasing efficiency. Slight gains through state supervisory pressure have occurred in Kentucky and apparently in one or two other states. Houston, Texas, has issued purchasing regulations in outline form.

On the whole wartime advances seem to have been slower than pre-war advances in the field of purchasing efficiency. Even in handling priorities, admittedly more complicated than necessary, public agencies too often have not distinguished themselves by extraordinary efficiency. Today some state centralized purchasing agents, in fact, are almost "bogged down" in these problems.

⁸⁷ The recapping under a general contract is said to save 50 per cent of the cost.

PUBLIC DEBT MANAGEMENT

1920-1940

Following World War I, general laxity pervaded southern state and local debt policy and administration. True, several state governments avoided excessive debt, but many were injured materially by disorderly borrowing practices. Moreover, many southern states suffered from unwise and badly managed local debt. In some cases the unfortunate practices antedated the World War I period; in others, they did not; in all cases the policies, and especially the practices, resulted in a heavy unnecessary drain on the economy. Certain specific cases will illustrate the problems confronted.

Doubtless Arkansas lost more from unfortunate debt practices than most, perhaps more than any other, of the states. That state in 1915 generally authorized special road districts. This law provided some safeguards against malpractice; so it was supplemented with hundreds of special acts creating individual road districts.⁸⁸ These districts invited inefficiency and graft and brought about a local tax situation which the Governor called the "most vicious system ever enacted in any state."⁸⁹ Incident to an ambitious state road financing program the debts of these districts, over \$70.5 million, were centrally assumed in 1927. At least the state government provided directly for current service on them. From 1927 to 1931 the state handled state debt and the loan proceeds with great freedom, so that in 1932 the first default occurred. From 1933 to 1935 no interest was paid on state or district debt. Throughout the 1920's and much of the 1930's available evidence suggests almost total lack of any plan and the total absence of management skill. Not only was administration inept but the legisla-

⁸⁸ Most of this discussion is based on B. U. Ratchford, *American State Debts*, 1941, Durham: Duke University Press, chap. 15.

⁸⁹ *Ibid.*, p. 385.

ture also sought to repudiate its contract with bondholders⁹⁰ and to play favorites in the discharge of obligations;⁹¹ it also gave other evidence that the state wished to avoid its obligations. Ratchford concludes that, "Arkansas' experience illustrates the dangers of borrowing in a poor state with inadequate financing administration and a relatively low level of political morality."⁹²

Kentucky—like several other states including Alabama, Mississippi, North Carolina (until 1933), Oklahoma, and Tennessee—incurred disorderly current debt in the 1920's and early 1930's to a sufficient extent that credit was seriously impaired in the early or middle 1930's. The Kentucky history, though differing in details, may be regarded as more or less typical. In that state the expenditures of the state exceeded revenue collections, and in some years exceeded appropriations. In 1910, subject to subsequent amendments,⁹³ the legislature sought to provide for such fiscal practices by means of Auditor's warrants on the Treasurer, which the latter could stamp interest-bearing if he lacked money to pay the claim. The practice of so assigning appropriations continued at an accelerating pace through the calendar year 1935,⁹⁴ at the end of which such unfunded warrants aggregated more than \$25 million. During 1936 and the following years, sufficient revenues were collected to provide a budgetary surplus; and the warrants were refinanced, first at 3— instead of 5—per cent and later at 1.5 per cent.⁹⁵ In fact, after 1935 there was careful, business-like management of the state's debt.

⁹⁰ *Ibid.*, p. 395.

⁹¹ *Ibid.*, p. 397.

⁹² *Ibid.*, p. 405.

⁹³ Acts, 1910, chap. 72; Acts, 1914, chap. 100; Acts, 1916, chap. 50, codified in *Carroll's Kentucky Statutes, 1936*, as sec. 4688a-2.

⁹⁴ This practice was constitutional. *Rhea v. Newman*, 153 Ky. 604, 156 S. W. 154, and *Stanley v. Townsend*, 170 Ky. 833, 136 S. W. 941.

⁹⁵ A. B. Chandler (Governor), *Kentucky Government 1935-1939*, p. 10. For history, see *Executive Budget, 1940-1942*, p. 47.

The county debt problem of Kentucky was not as serious as that confronted in either Florida or North Carolina. For example, there was no such *amount* of credit obligations, state or local, as in North Carolina; and the causes of difficulty were neither as numerous nor as severe as in Florida.⁹⁶ However, the story of Kentucky county debt trouble is more or less analogous to that of the difficulties confronted in other states. There was in the 1920's a vigorous state-local officials' drive for county roads. To finance the early automobile highways the counties borrowed money and the state earmarked motor vehicle and gasoline taxes, and the proceeds were improvidently, if not dishonestly, used for road purposes. There was a coal and land boom in parts of the state, and it is not surprising that many counties floated loans out of proportion to their taxable capacity, especially in view of the constitutional limitation to \$0.50 for general and \$0.20 additional for road purposes. Moreover, the counties lacked technical debt counsel; and in many cases they imposed on themselves totally impossible technical requirements, such, for example, as impracticable retirement schedules. The management was extremely bad in all except a few counties, so that in the middle 1930's defaults were numerous, and others were threatened. There was a slight improvement from state supervision and from a temporary allocation of state revenues for county road debt service after July, 1934; but the state made no frontal attack on the debt problem as such until 1938, when it passed the "County Debt Act." This legislation in effect provided expert aid to those counties confronting debt troubles and generally provided for more and better state supervision.⁹⁷ After getting off to a slow start,⁹⁸

⁹⁶ For example, much of the Florida difficulty resulted from abuse of special assessment debt practice: that factor was practically or entirely lacking in Kentucky.

⁹⁷ The operation of the State Local Finance Officer in this connection is traced in a scholarly, yet simple, fashion in Department of Revenue, *Administration of the County Debt Act: A Report to the County Debt Commission, 1942-1948*, pp. 3 ff. The supervision policies are set out in James W. Martin, "State Supervision of County

only three counties had refinanced by the end of the calendar year 1939. It was apparent, however, that the state had found a technical implement which could aid most counties toward "financial health."

Experience in Arkansas and Kentucky does not typify all elements of state and local debt administration, but it gives a rough suggestion of the troubles which have confronted nearly all southern states and many local governments in every state. In general, the level of efficiency in state and local debt management was unbelievably low through the 1920's and the early 1930's. The depression of the early 1930's in most states brought about an acute awareness of the debt problem on the part of both creditors and the public. In consequence most states took action at some date between the late 1920's and 1940 to correct the public debt administration situation. The problem had been by no means completely solved by 1940.⁹⁹

Wartime debt management

The administration of public debt in the southern states, though still far from 100 per cent efficiency, presents on the whole a favorable picture by contrast with earlier years. This showing results mainly from the fact that since 1940 state and local governments have continued the relatively sound policies forced upon them in the middle and late 1930's, but partly also from the favorable current budgetary situation that war economic activity has produced. The recent excess of revenue over expenditures has rendered possible the complete retirement of

Finances in Kentucky," *National Municipal Review*, Feb. 1939, pp. 249 ff.; Keen Johnson (Governor), *Kentucky Government 1939-1943*, pp. 53-68 ff.; and Glenn D. Morrow, "Supervision of County Debts in Kentucky," *Public Administration Review*, autumn, 1943, pp. 335 ff.

⁹⁹Due mainly to disagreements among bondholders and investment bankers, but partly to the thought among creditors that the state might assume or otherwise directly contribute to county debt service.

¹⁰⁰Southern city and school district debts have given the same kinds of trouble as have county debts. State supervision of school finances developed earliest and doubtless prevented difficulties. Cities, especially in Florida, however, have presented numerous defaults and other symptoms of inefficient debt administration.

governmental units' outstanding debt in some cases¹⁰⁰ and of whole issues in other instances.¹⁰¹ North Carolina has recently earmarked \$52 million to retire outstanding non-callable bonds. Kentucky has prohibited warrant debt altogether, and Louisiana has restricted the authority of its Board of Liquidation more severely but has not materially modified procedure.

The state governments which had disorderly warrant debts have all retired them, and most other states have adopted a defensible debt management plan. In Arkansas, the unfortunate results of previous vicious debt policy and administration have been placed in line for a reasonable cure by refinancing through the Reconstruction Finance Corporation.¹⁰² In Tennessee the plan worked out in 1937 has been perfected in operation, so that the state is effectively controlling its debt; the accumulated interest saving during the past two administrations has been estimated at \$4 million.¹⁰³ As far as can be ascertained, all other southern state governments now have debt administration in reasonably honest, and in the main relatively efficient, hands.

Wartime local debt management has two general aspects, state facilities for assuring or promoting sound local debt practices and locally initiated debt administration activities. In considering "Trends in Intergovernmental Fiscal Relationships," reference has been made to state supervision of local finances. Perhaps in specific reference to public debt it would be well to outline certain developments. Two states' experience will illustrate the constructive changes. In Kentucky the Department of Revenue (through a State Local Finance Officer) has continued the assistance to counties which was authorized in the 1938 legislation previously referred to. From January,

¹⁰⁰ As in the state of Kentucky, March, 1942.

¹⁰¹ As in the current call by St. Petersburg of an issue of \$18 million.

¹⁰² Ratchford, *loc. cit.*

¹⁰³ Tennessee Taxpayers Association, *Twelfth Annual Report*, p. 17. The savings cover 1937-1943. Ratchford shows (*op. cit.*, p. 412) that Tennessee debt practices to 1931 were permeated with graft.

1940, through September, 1943, 20 refinancing plans were consummated.¹⁰⁴ The effect was to develop orderly debt arrangements for these counties and to centralize administration of their sinking funds. In very large part the counties and bondholders have voluntarily sought the good offices of the Department of Revenue. Practically none of the refinancings have been of such character that the counties were legally compelled to accept state assistance. Central aid has been required because bondholders have desired it, because county officials have believed the plan advantageous in that it made expert bond counsel available, and because the administrative procedure is comparatively simple.¹⁰⁵ Due to the fact that under the state's county refinancing plan the Local Finance Officer informally aids in working out almost every plan, his right to reject an unsatisfactory scheme has been invoked only in exceptional instances.¹⁰⁶

In Virginia the marked improvements in local debt administration, so far as they have depended on state supervision, have resulted mainly from the persistent efforts of an efficient State Auditor. The plan has been carried forward during the war period, and steady progress has continued except as it has been slowed down by loss of personnel to the war services. Several other states have effected similar gains through supervisory action. School districts have largely progressed through similar means.

Several cities, counties, and other units of local government have made recent headway in debt management through local initiative and through stimulation from municipal leagues, the International City Managers Association, and the Municipal

¹⁰⁴ None has been worked out since early 1944.

¹⁰⁵ Department of Revenue, *Administration of the County Debt Act*, *op. cit.*, pp. 3-7.

¹⁰⁶ For example, it has sometimes been necessary in order to secure a legal interpretation of some specific points.

Finance Officers Association. That process, however, so far as experience in the South is indicative, does not bring about economical debt management on more than a "retail basis," whereas state action sometimes in recent years has achieved "wholesale improvement."¹⁰⁷

THE POSTAUDIT

Background

Regarding both private and governmental business, finance experts have long agreed that an audit of records is an essential adjunct to sound fiscal administration. In practice, a heavy proportion of southern financial, commercial, industrial, and public service concerns lack such an outside investigation and verification. Perhaps an even larger proportion of governmental activity is not thus checked.

However, in the period 1920-1940 southern states and their local subdivisions and municipalities made considerable advance toward conformity with plans which the expert could approve. To some extent the headway was a by-product of improved fiscal management. For example, some good city managers insisted on annual audits. However, southern cities, counties, and other taxing districts in general made perhaps more widespread changes in this direction by reason of altered state policies and especially as a consequence of state provision, or state supervision, of such investigations.¹⁰⁸ The Virginia State Auditor, beginning with the 1931 Old Dominion reorganization, followed by consistent good work in the same office, ef-

¹⁰⁷ Cf. Wylie Kilpatrick, *State Supervision of Local Finance*, Chicago: Public Administration Service, 1944, pp. 31 ff.; Carl H. Chatters and Albert M. Hillhouse, *Local Government Debt Administration*, New York: Prentice-Hall, 1939, pp. 374 ff.; and Institute for Training in Municipal Administration, *Municipal Finance Administration*, Chicago: Author, 1941 ed., chaps. 11-12.

¹⁰⁸ The principles are summarized and the practices are outlined in James W. Martin, Robert Sawyer, and Marie S. Fraser, *The State Auditor*, Lexington: Bureau of Business Research, University of Kentucky, 1942. As an example, cf. audits reported in the *Biennial Report of the Kentucky Auditor of Public Accounts*, 1941, pp. 5-132.

fecting outstanding local fiscal improvement through state investigations.¹⁰⁹ Other states which with varying degrees of success have followed the same plan of improving the finances of their counties and, in some instances, other local governments include Alabama, Arkansas, Florida, Kentucky, Louisiana, Mississippi, Oklahoma, Tennessee, and West Virginia. The North Carolina Local Government Commission and the Georgia State Auditor have followed the alternative plan of providing for state supervision of private local audits. City audits in Florida are subject to similar supervision. Both state conducted and state supervised private investigations have helped to tone up financial practice and to prevent irregularities in local administration.

While these local government audits were developing throughout the South, states were gradually extending provisions for a postaudit of their own records. By 1940 every southern state had made statutory provision for such examinations, mostly by an official charged with doing the work. However, in many states the law specifies that the state may also use private auditors. In almost all cases the auditors check expenditures by departments; but evidence is plentiful that revenues in certain states have been investigated inadequately. To a lesser extent, the expenditure records found in central state accounting agencies have been verified less fully than standard accounting practice would justify. Moreover, many investigations in certain states are characterized by rigid adherence to a formal procedure rather than by the exercise of mature discretion in keeping with a professional outlook.

Wartime developments

During the war period most southern states have continued prewar audit plans unaltered except as loss of skilled personnel

¹⁰⁹ Cf. L. McCarthy Downs, "County Debt in Virginia," *University of Virginia Newsletter*, Dec., 1943.

has affected the situation. Unfortunately for improvement of the service, the war requirements have been particularly hard on offices using accountants.

In state auditing as such the most fundamental wartime development has occurred in Texas. The Lone Star state for some time has had a certified public accountant as state auditor. However, he has been appointed by the Governor and has in consequence lacked independence. Under the 1943 legislation, this officer is appointed by a joint legislative committee subject to the Senate's approval. The new legislation gives the auditor adequate authority to facilitate good state auditing. It is of interest that among the few states which have public examiners selected by the legislature, as recommended by most authorities, three¹¹⁰ are in the South.

Meantime, miscellaneous, mostly administrative, changes have occurred in several states of the South. Illustrations include greatly improved supervision of individual audits in Alabama; failure (after personnel loss to the armed forces) to employ a certified public accountant as Kentucky Assistant State Auditor, as provided by statute; provision for a 90 per cent current increase in legislative support in order that the Louisiana Supervisor of Public Funds may do the work assigned by law;¹¹¹ a 12 per cent increase in the 1944-1946 appropriation for the Mississippi State Auditor; and a vigorous campaign in Tennessee, which promises results, to induce the state to assume its legally authorized audit functions in respect particularly of local government.

As to recent state-local and purely local developments, none appears to be revolutionary. Alabama makes municipal audits

¹¹⁰ Tenn., Tex., and Va. Three years ago the only three other states following this "model" practice were Conn., Me., and N. J. Martin, Sawyer, and Fraser, *op. cit.*, p. 8.

¹¹¹ The Governor recommended that a 114 per cent increase be provided. *Executive Budget, 1944-1946*, p. 111.

by local request, and the number increased in fiscal 1944 by 35 per cent. In Virginia it seems that, despite war personnel problems, the quality of local audits is improved. At any rate the reports have seemed to reflect advances. There have been numerous changes in local audit practice—some improvements, some set-backs. The earlier practice in Lexington, Kentucky, of having a firm of certified accountants do much of the examination before the year end and in consequence secure an unusually early report has been re-emphasized. Several Kentucky and Tennessee cities which formerly lacked full examinations have recently secured them.

TABLE I
TOTAL REVENUES OF SOUTHERN STATES AND OF ALL STATES FOR SELECTED YEARS
(in thousands)

	1922*	1927*	1932*	1937	1940	1941	1942	1943
Alabama	\$15,382	\$21,999	\$30,308	\$57,070	\$71,465	\$79,789	\$79,789	\$94,813
Arkansas	7,500	20,312	25,862	32,942	44,943	48,190	56,022	60,606
Florida	10,548	27,391	25,870	49,397	68,880	77,163	82,212	76,341
Georgia	17,317	29,262	40,369	43,254	71,944	78,196	87,568	90,422
Kentucky	17,917	30,720	36,930	61,606	70,312	74,706	83,321	79,361
Louisiana	20,087	28,126	34,528	78,199	102,915	101,079	112,791	123,935
Mississippi	11,151	16,395	19,084	40,635	42,291	49,784	60,913	63,602
North Carolina	13,164	35,827	43,893	93,491	110,870	119,064	132,662	144,776
Oklahoma	14,974	31,676	39,675	80,900	82,006	84,704	103,668	103,414
South Carolina	8,399	17,464	25,088	36,341	45,292	51,604	62,881	63,975
Tennessee	15,465	26,535	32,335	48,961	69,638	72,975	86,217	87,739
Texas	41,859	78,687	110,739	177,220	196,294	199,457	199,521	226,423
Virginia	26,501	38,996	42,199	65,107	80,137	90,833	104,476	108,871
West Virginia	12,348	20,758	24,118	60,450	71,881	76,926	87,484	88,020
All southern states	\$232,612	\$424,148	\$530,998	\$925,579	\$1,128,868	\$1,204,470	\$1,339,531	\$1,412,298
All states	\$1,159,527	\$1,758,381	\$2,197,756	\$4,093,196	\$5,388,970	\$5,574,351	\$6,113,832	\$6,280,012

Source: U. S. Bureau of the Census, *State Finances* (formerly *Financial Statistics of States*), various years.
* Data are not fully comparable with later years. See Appendix I.

TABLE 2
REVENUES OF SOUTHERN STATES AND OF ALL STATES FOR SELECTED YEARS
(in thousands)

	1922*	1927*	1932*	1937	1940	1941	1942	1943	1944
Total revenues									
South	\$ 232,612	\$ 424,148	\$ 530,998	\$ 925,579	\$1,121,198	\$1,204,470	\$1,339,631	\$1,412,298	
United States	1,159,527	1,758,381	2,197,756	4,093,196	5,388,970	5,574,351	6,113,832	6,280,012	
Total tax revenues									
South	169,228	314,228	381,928	702,862	855,967	955,531	1,061,981	1,105,516	1,169,053†
United States	858,145	1,355,127	1,641,850	3,105,445	4,156,903	4,507,211	4,974,765	5,094,263	5,386,543†
Property taxes									
South	99,955	99,821	97,350	76,039	79,111	66,771	67,693	66,354	76,189†
United States	429,295	470,237	435,692	373,397	259,918	267,752	270,939	258,365	243,200†
Income, death, and gift taxes									
South	9,949	20,386	19,958	54,142	61,153	74,702	104,378	134,165	146,996
United States	95,458	160,906	191,811	401,480	474,366	539,661	635,581	741,495	878,055
Severance taxes									
South	Not			40,184	39,392	41,197	46,309	55,612	57,311
United States				44,137	53,052	53,350	62,350	74,724	70,644†
Gasoline taxes	reported								
South				216,425	259,369	293,242	314,012	253,775	242,550
United States	on			649,301	838,771	913,069	942,227	777,339	691,100†
General sales and use taxes									
South		comparable		58,943	71,663	81,366	88,051	108,999	199,935
United States				430,996	499,386	575,113	632,704	670,542	721,065
Unemployment compensation taxes		basis							
South				60,186	120,363	125,202	143,242	167,972	185,051
United States				345,770	844,259	901,465	1,075,953	1,171,515	1,319,451
Alcoholic beverage sales taxes									
South				23,798	33,513	44,051	56,315	62,979	60,354
United States				145,052	193,378	216,107	256,186	279,911	267,117
Motor vehicle licenses									
South				58,294	70,700	76,544	72,023	82,371	85,134
United States				345,769	386,626	418,521	381,509	394,613	398,178†

TABLE 2—Continued

	1922*	1927*	1932*	1937	1940	1941	1942	1943	1944
All other									
South	59,324	194,021	264,618	114,851	120,703	152,456	169,958	173,289	185,533
United States	338,392	723,984	1,014,347	367,543	607,147	622,173	717,316	725,769	797,735
Total non-tax revenues									
South	69,384	109,920	149,072	222,717	256,231	248,939	277,550	306,782‡	
United States	301,382	403,254	555,906	987,751	1,232,067	1,067,140	1,139,067	1,185,749‡	

Source: U. S. Bureau of the Census, *State Finances* (formerly *Financial Statistics of States*), various years.

* Data for 1922, 1927, and 1932 are not comparable with later years: (1) Locally shared taxes are not included; (2) earnings of public service enterprises were deducted, but owing to differences in methods of reporting this adjustment does not make the data fully comparable. The discrepancies, however, are not believed to be large.

† Incomplete.

‡ Computed by taking difference between total revenues and total tax revenues.

TABLE 3
STATE AND LOCAL PROPERTY TAX COLLECTIONS AS COMPARED
WITH TOTAL REVENUES IN SOUTHERN STATES AND IN
ALL STATES 1922, 1932, 1941
(in thousands)

	Total property tax collections			Ratio to total revenues	
	1922	1932	1941	1932	1941
Alabama	\$22,706	\$32,395	\$27,852	49.2%	23.0%
Arkansas	16,718	19,979	16,700	41.5	24.3
Florida	30,156	48,497	54,797	57.3	35.8
Georgia	34,362	41,169	43,351	47.7	34.1
Kentucky	39,686	48,157	36,948	59.2	31.0
Louisiana	43,092	50,705	44,173	58.0	29.0
Mississippi	30,713	33,776	29,923	56.9	34.8
North Carolina	35,252	55,785	54,363	51.9	29.1
Oklahoma	44,319	52,658	41,591	55.0	30.5
South Carolina	19,558	25,045	24,462	48.8	27.9
Tennessee	35,202	40,243	44,975	49.5	29.6
Texas	94,890	145,822	147,696	57.4	41.9
Virginia	32,093	40,498	41,500	44.2	29.5
West Virginia	35,058	50,050	26,533	68.1	24.2
All southern states..	\$513,805	\$684,779	\$634,864	54.0	31.9
All states	\$3,321,484	\$4,684,784	\$4,473,545	61.2	40.5

Source: Computed from U. S. Bureau of the Census, *Property Taxation: 1941*, pp. 12-14; *Financing Federal, State, and Local Governments: 1941*, pp. 116-123.

TABLE 4
COMPARATIVE STATE AND LOCAL GENERAL GOVERNMENT
EXPENDITURES, 1932 AND 1941
(Includes both payments to other public units and payments from funds received from other public units; amounts in thousands.)

	State			Local		
	1932	1941	Per-centage change 1932-41	1932	1941	Per-centage change 1932-41
Total expenditures (including debt retirement)	\$2,605,515	\$5,655,318	117.1	\$6,842,715	\$7,444,518	8.8
Total cost payments (excluding debt retirements)	2,495,515	5,375,064	115.4	6,319,715	6,783,732	7.3
General administrative, legislative, and judicial	144,221	189,704	31.5	567,068	601,210	6.0
Protection and United States Defense	91,352	140,110	53.4	562,096	580,638	3.3
Transportation (Highways and waterways)	993,216	1,189,821	19.8	935,605	826,966	-15.3
Agriculture and natural resources	82,716	113,999	37.8	49,146	69,840	42.1
Health and sanitation	40,421	61,685	34.3	411,895	371,401	-9.8
Welfare, hospitals, and corrections	322,640	1,239,310	234.1	597,418	1,021,979	71.1
Old age and unemployment insurance		1,026,910			5,906	
Schools	629,679	1,009,511	60.3	2,020,935	2,238,433	10.8
Libraries	2,866	4,501	57.0	40,972	47,942	17.0
Recreation	20,092	14,616	-27.2	154,739	170,503	10.2
Contribution to credit corporations and public service enterprises		3,100		72,000	101,200	40.6
Interest	108,466	122,259	12.7	592,000	471,373	-20.4
Debt retirement	110,000	280,254	154.8	523,000	660,736	26.3
Miscellaneous*	59,844	259,538†	333.7	315,841	276,341	-12.5

Source: U. S. Bureau of the Census, *Financing Federal, State, and Local Governments: 1941*, p. 71.

* Includes unspecified fiscal aid.

† Includes payments for postal deficiency and contributions to the Reconstruction Finance Corporation and Federal Land Banks.

TABLE 5
PERCENTAGE DISTRIBUTION OF STATE COST PAYMENTS BY OBJECT AND FUNCTION FOR
SELECTED YEARS

	1925		1930		1937		1940		1943	
	South	United States	South	United States	South	United States	South	United States	South	United States
Total cost payments	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Operation and maintenance	59.6	64.6	55.8	61.1	69.9	75.9	74.0	81.4	85.0	86.6
Interest	3.2	4.2	5.4	4.5	4.7	3.5	3.6	2.7	2.8	2.4
Capital outlay	37.2*	31.2*	38.8*	34.4*	25.4	20.6	22.4	15.9	12.2	11.0
Operation and maintenance	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
General control	9.3	8.3	8.5	7.9	6.7	5.7	5.2	4.3	3.9	3.5
Protection to persons and property	4.0	5.4	4.1	5.7	3.5	4.0	3.4	3.4	2.3	2.7
Highways	15.0	13.9	18.4	18.1	23.1	17.4	17.2	12.5	13.2	11.3
Development and conservation of natural resources	5.0	5.5	4.7	5.4	4.0	2.9	3.8	2.7	3.6	2.4
Health and sanitation	1.6*	1.6*	1.6*	1.6*	2.0	1.4	2.1	1.3	1.8	1.1
Welfare†	21.1*	25.9*	18.7*	20.1*	18.5	32.8	20.7	32.7	21.8	24.9
Schools	43.4	38.2	43.3	40.0	39.9	31.5	35.5	24.8	31.4	22.2
Libraries	0.1	0.2	0.1	0.2	0.1	0.1	0.1	0.1	.....	.....
Recreation	0.1	0.3	0.1	0.4	0.1	0.3	0.1	0.2	.....	.....
Unemployment compensation and employment services	‡	‡	‡	‡	0.3	0.4	9.9	14.9	.....	.....
Contributions to public service enterprises	‡	‡	‡	‡	0.2	0.1	0.2	0.1	17.5	25.3

TABLE 5—Continued

	1925		1930		1937		1940		1943	
	South	United States	South	United States	South	United States	South	United States	South	United States
Grants for unspecified purposes	‡	‡	‡	‡	1.2	1.3	1.5	1.1	3.6	5.3
Miscellaneous	0.4*	0.9*	0.5*	0.7*	0.4	2.0	0.4	1.8	0.9	1.3

Source: U. S. Bureau of Statistics, *State Finances* (formerly *Financial Statistics of States*), various years. See Appendix I. In those instances in which breakdown does not equal precisely 100% no adjustment has been made.

* Adjusted so as to be comparable with later years.

† Includes corrections and hospitals.

‡ Not reported.

TABLE 6
PERCENTAGE DISTRIBUTION OF TOTAL COST PAYMENTS, EXCLUSIVE OF DEBT RETIREMENT AND CONTRIBUTIONS TO TRUST FUNDS AND PUBLIC SERVICE ENTERPRISES, OF ALL SOUTHERN CITIES, COMPARED WITH ALL CITIES IN CONTINENTAL UNITED STATES, WITH POPULATIONS FROM 100,000 TO 500,000 FOR SELECTED YEARS

	1926		1936		1939		1942*		1943*	
	South	United States	South	United States	South	United States	South	United States	South	United States
Total cost payments	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	Object	
Operation and maintenance	55.3	62.2	65.4	75.4	72.8	78.8	80.4	86.4	breakdown	
Interest†	9.4	8.3	14.7	11.4	13.3	8.6	11.4	8.4	not	
Capital outlays	35.3	29.6	19.9	13.1	13.9	12.6	8.2	5.2	available	
Operation and maintenance	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
General control	6.7	7.3	7.7	7.0	8.3	6.9	8.3	6.9	8.1	6.9
Public safety	22.2	20.5	20.8	17.7	20.3	16.9	22.2	21.2	22.6	21.5
Highways	11.3	9.5	7.2	7.4	6.8	6.2	5.8	6.4	6.4	6.7
Health	14.4	11.8	12.6	11.0	13.1	10.8	16.3	14.1	15.7	13.6
Welfare	5.4	6.2	8.6	13.0	8.0	17.4	8.2	14.9	7.8	13.3
Education	37.4	41.1	39.9	39.0	40.2	37.2	37.2	33.9	37.3	34.7
Miscellaneous	2.7	3.5	3.2	4.8	3.3	4.8	2.0	2.7	2.0	3.3

Source: Computed from U. S. Bureau of the Census, *City Finances* (formerly *Financial Statistics of Cities*) by a method largely specially devised by the Bureau of the Census, Division of Governments. In those instances in which the breakdown does not precisely equal 100% no adjustment has been made.

* Because school expenditures are not reported for Jacksonville, Miami, Tampa, Oklahoma City, Tulsa, El Paso, Fort Worth, Houston, and San Antonio, cost payments of these cities are not included in the southern total for 1942. Except for El Paso the same cities are excluded for 1943. For the same reason 33 cities for 1942 and 35 cities for 1943 are not included in the national total. The data, therefore, are not fully comparable with earlier years, but the difference is probably slight.

† For 1926 the figure includes, and for other years excludes, public service enterprise interest.

TABLE 7
 DOLLAR AND PERCENTAGE DISTRIBUTION OF COST PAYMENTS
 OF COUNTIES IN FIVE SELECTED SOUTHERN STATES* AND
 NINETEEN STATES† INCLUDING THE SOUTHERN
 FOR 1932 AND 1942
 (amounts in thousands of dollars)

	1932		1942	
	South	United States	South	United States
Total cost payments	135,573	863,238	126,291	872,803
Operation and maintenance..	103,187	584,942	102,442	780,974
Interest	22,318	69,571	15,996	42,977
Capital outlay	10,068	208,725	7,853	48,852
Operation and maintenance.....	103,187	584,942	102,442	780,974
General control	20,422	138,820	20,912	140,621
Public safety	2,329	26,866	5,347	33,992
Highways	27,078	136,772	13,614	128,051
Welfare‡	5,956	116,100	19,006	373,008
Health and sanitation	1,813	20,278	3,987	12,689
Schools	42,860	115,527	35,294	52,908
Libraries	91	2,141	273	3,410
Recreation	10	4,750	68	5,573
Natural resources		3,062	1,453	10,571
Operation and maintenance of public service enterprise	42	252		
Miscellaneous and undistributed	2,628	23,688	2,488	20,151
Total cost payments	100.0%	100.0%	100.0%	100.0%
Operation and maintenance..	76.1	67.8	81.1	89.5
Interest	16.5	8.1	12.7	4.9
Capital outlay	7.4	24.2	6.2	5.6
Operation and maintenance	100.0	100.0	100.0	100.0
General control	19.8	23.7	20.4	18.0
Public safety	2.3	4.6	5.2	4.4
Highways	26.2	23.4	13.3	16.4
Welfare‡	5.8	19.8	18.6	47.8
Health and sanitation	1.8	3.5	3.9	1.6
Schools	41.5	19.8	34.5	6.8
Libraries .....	.1	.4	.3	.4
Recreation .....	.01	.8	.1	.7

Natural resources .....		.5	1.4	1.4
Operation and maintenance of public service enterprise	.04	.04	.....	.....
Miscellaneous and undistributed	2.5	4.0	2.4	2.6

Source: U. S. Bureau of the Census, *County Finances: 1942*, Tables 3, 4, and 5, and *Financial Statistics of States and Local Governments: 1952*, Table 3.

* Selected southern states are: Fla., Ky., Miss., N. C., and Va.

† Nineteen specified states are: Calif., Fla., Idaho, Ind., Iowa, Kan., Ky., Minn., Miss., Mont., N. H., N. Y., N. C., N. D., Ohio, Pa., Va., Wash., and Wis.

‡ Welfare includes corrections and hospitals.

TABLE 8
 PER CAPITA TOTAL FEDERAL GRANTS-IN-AID TO SOUTHERN
 STATES AND TO ALL STATES FOR SELECTED YEARS

	1923	1927	1931	1937	1940	1943
Alabama .....	.89	.71	2.10	2.55	3.38	4.23
Arkansas .....	.19	.73	1.73	1.77	4.17	4.84
Florida	1.08	1.22	1.42	1.67	3.74	5.98
Georgia .....	.87	1.06	2.91	1.97	3.69	5.06
Kentucky .....	.83	.75	1.69	2.81	3.26	5.03
Louisiana .....	.69	.77	2.21	3.86	5.24	6.58
Mississippi .....	.46	1.17	1.56	7.26	3.75	4.49
North Carolina	2.10	1.05	1.37	3.18	4.10	4.31
Oklahoma	2.58	.80	2.67	6.33	6.08	9.90
South Carolina .....	.18	.82	3.20	3.33	3.66	4.88
Tennessee	1.05	.94	2.04	2.28	3.93	4.84
Texas	1.26	1.08	2.21	5.50	4.14	6.67
Virginia .....	.76	.95	2.07	2.89	3.50	5.31
West Virginia .....	.64	.59	.94	3.56	3.90	7.48
All southern states	1.04	.92	2.05	3.64	4.03	5.68
All states .....	.93	.96	1.71	4.40	5.03	6.40

Source: U. S. Bureau of the Census, *State Finances* (formerly *Financial Statistics of States*), various years.

TABLE 9
 FEDERAL GRANTS TO SOUTHERN STATES AND TO ALL STATES
 RELATED TO MEASURES OF EACH STATE'S
 RESOURCES, SELECTED YEARS

	Federal grants received as a percentage of:								
	Grants received 1940		State tax revenue in			Income payments in			
	1942	1943	1940	1942	1943	1940	1942	1943	
Alabama	112.1	123.0	17.3	17.2	15.8	1.3	0.7	0.7	
Arkansas	95.7	108.1	23.7	17.2	18.1	1.6	0.9	0.9	
Florida	158.5	175.5	12.1	16.5	20.5	0.8	0.8	0.6	
Georgia	107.2	132.8	21.5	17.5	21.9	1.2	0.7	0.7	
Kentucky	135.1	141.2	17.1	18.7	21.2	1.1	1.0	0.8	
Louisiana	113.7	124.2	15.0	15.3	15.2	1.5	1.0	0.8	
Mississippi	138.7	111.5	24.6	24.4	17.9	1.8	1.3	0.8	
North Carolina	91.5	100.8	16.7	11.9	12.0	1.3	0.7	0.7	
Oklahoma	141.2	146.4	22.8	25.0	26.2	1.7	1.6	1.3	
South Carolina	125.4	128.6	19.7	17.0	17.1	1.3	0.9	0.8	
Tennessee	121.2	120.6	22.1	21.0	20.2	1.2	0.9	0.7	
Texas	121.0	159.1	17.9	20.6	24.2	1.0	0.7	0.7	
Virginia	127.1	157.1	16.5	15.8	20.1	0.8	0.6	0.6	
West Virginia	155.7	176.4	12.9	17.1	19.7	1.0	1.1	1.1	
All southern states	122.3	136.7	18.0	18.1	19.4	1.2	0.9	0.8	
All states	118.7	123.0	15.9	15.8	16.0	0.9	0.7	0.6	

Source: U. S. Bureau of the Census, *State Finances* (formerly *Financial Statistics of States*), various years; and *Survey of Current Business*, Aug., 1944, pp. 17 ff.

TABLE 10
STATE GRANTS TO LOCAL GOVERNMENTS IN THE SOUTHERN
STATES AND IN ALL STATES RELATED TO MEASURES OF
STATE AND LOCAL RESOURCES, 1941, 1942, 1943

	State grants paid as a percentage of:							
	Grants paid in 1932			Total state expenditures			Total local revenues	
	1941	1942	1943	1941	1942	1943	1941	1942
Alabama	190.2	192.5	217.9	35.5	36.0	34.3	36.6	
Arkansas	104.0	133.2	144.6	17.5	21.4	20.6	26.6	
Florida	209.3	216.9	188.6	32.4	32.2	29.9	25.3	Only
Georgia	360.2	308.4	359.0	31.9	27.3	25.9	33.7	
Kentucky	151.3	153.6	160.7	15.4	14.0	15.2	20.4	
Louisiana	437.0	584.9	528.5	24.1	27.0	26.2	33.2	
Mississippi	265.0	277.4	293.9	30.4	31.8	35.7	31.5	national
North Carolina ...	532.2	587.3	630.8	32.0	34.6	36.9	35.5	
Oklahoma	173.3	177.5	161.9	25.0	25.0	20.2	29.8	
South Carolina ...	194.0	227.2	240.6	28.3	28.9	31.8	33.3	
Tennessee	175.7	165.5	170.0	29.1	25.1	24.4	21.0	figures
Texas	198.9	198.9	212.0	32.5	32.5	27.9	29.3	
Virginia	248.9	278.3	326.2	21.4	22.4	22.7	25.8	
West Virginia	1093.9	1223.5	1251.7	23.4	21.9	23.7	37.1	available
All southern states	237.2	251.1	260.7	27.8	27.7	26.9	29.7	
All states	245.8	263.9	262.9	30.1	30.6	30.2	23.6	33.6

Source: U. S. Bureau of the Census, *State Finances* (formerly *Financial Statistics of States*), various years.

TABLE 11
STATE AND LOCAL GOVERNMENT GROSS DEBT PER CAPITA
COMPARED WITH INCOME PAYMENTS PER CAPITA
FOR SELECTED YEARS

	Per capita debt					Ratio of per capita debt to per capita income payments		
	1922	1932	1940	1943	1944	1932	1940	1943
Alabama	32.52	80.52	75.21			50.7	31.1	
Arkansas	51.17	137.88	109.89	Only		86.6	45.4	Only
Florida	107.90	350.55	223.03			112.6	50.2	
Georgia	24.04	39.23	48.39	national		20.5	16.7	national
Kentucky	22.45	47.46	47.81			22.0	16.1	
Louisiana	71.92	171.36	166.78	totals		70.9	48.1	total
Mississippi	64.33	89.67	85.07			68.2	42.1	
North Carolina..	71.33	173.61	128.90	available		94.1	43.1	available
Oklahoma	75.23	102.06	84.50			46.8	24.8	
South Carolina..	40.84	108.38	84.73			68.2	31.7	
Tennessee	58.62	126.86	143.00			64.3	48.7	
Texas	81.35	134.21	114.49			51.6	28.7	
Virginia	56.83	89.17	75.87			32.1	19.9	
West Virginia ..	49.66	93.13	70.79			34.7	18.9	
All southern states	56.99	119.70	103.45			48.7	23.9	
All states	94.71	157.08	153.61	136.60	126.18	39.7	28.9	12.6

Source: U. S. Bureau of the Census, *State and Local Government Debt: 1940*, pp. 35, 46-50; *Survey of Current Business*, Aug., 1944, pp. 17 ff.

TABLE 12
STATE LONG-TERM NET DEBT 1940-1943
(in thousands)

	1940	1941	1942	1943
Alabama	\$66,146	\$72,029	\$72,029	\$66,166
Arkansas	150,982	152,026	148,792	142,290
Florida	none	none	none	none
Georgia	26,310	29,834	26,163	16,158
Kentucky	13,391	10,593	8,702	7,445
Louisiana	147,223	184,014	179,985	168,837
Mississippi	73,117	84,848	80,818	76,584
North Carolina	122,716	116,461	108,329	99,920
Oklahoma	26,999	25,205	39,280	23,886
South Carolina	55,058	71,951	85,530	79,340
Tennessee	91,133	90,547	86,481	76,080
Texas	19,985	17,786	17,786	14,851
Virginia	21,744	20,474	19,258	7,185
West Virginia	75,743	74,484	74,115	70,590
All southern states'	900,547	950,252	247,268	849,332
All states	2,460,116	2,710,784	2,620,320	2,318,015

Source: U. S. Bureau of the Census, *State Finances* (formerly *Financial Statistics of States*), various years.

APPENDIX I
THE RELIABILITY OF STATISTICAL DATA WHICH
FORM THE BASIS OF THIS REPORT

As far as available data permit, the text of this study sketches fiscal trends from 1922, the date of the first decennial survey of state and local finances by the United States Bureau of the Census after the First World War. Because of the non-comparability of available statistics, however, the beginning time of background analysis must perforce be irregular. Fully comparable statistics of certain states are lacking.

Owing to the limited availability of fiscal data and to inconsistent reporting, particularly with respect to intergovernmental transfers of funds, the trends in total state and local finances cannot be presented with any high degree of accuracy. Similarly, the trends in certain phases of state and local finance can be presented only for particular years and, in some instances, only on a national basis. Statistics relating to local finance—particularly of counties, special districts, and small municipalities—are notably lacking. Even educational statistics are confusing because the Office of Education reports these on a purely functional basis, whereas the Census Bureau, which provides most other figures available, reports on a governmental unit basis. Thus, census statistics of cities and counties include educational data only if there is no fiscally independent school district.

FISCAL YEAR

The "fiscal years" employed in both census and locally assembled data used in this study are not identical for all purposes. In general, *state* data are for the fiscal year ended during the 12-month period which closed June 30 of any designated year. There are, however, occasional exceptions due mainly to

the use of preliminary census reports and to changes in states' fiscal periods. Occasional variations based on directly acquired state information are mentioned in the text. Townships, school districts (except that the little used Office of Education data appear to be consistently reported on the basis of a year ended June 30), and special districts are reported on the same fiscal year basis.

Data for large municipalities are for each city's own fiscal year ended during the calendar year (except that debt statistics for 1944 are for one year earlier). Apparently, the Bureau of the Census sought in 1942 to report small city data on the same basis as those of over 25,000 population, but the record is not entirely clear. However, in *Governmental Debt in the United States: 1944* (p. 4) the Bureau reports cities of less than 25,000 population on the same basis as states. County data are reported on the same basis as are the larger cities, but there are frequent exceptions.

In the decennial surveys for 1922 and 1932 the statistics are reported differently. In 1922, with occasional exceptions, data for states and for all local governments are for the fiscal year ended during the calendar year. In 1932 all figures reported are for the fiscal year ended during the 12 months closing June 30, 1932. Throughout the report the census basis of reporting has been used as far as possible.

STATISTICS RELATING TO STATE REVENUES

Because of changes which the Census Bureau made in 1937 and in 1941 in revenue reporting methods, it is impossible to get exactly comparable state revenue data extending over the period since 1922. (1) Prior to 1937 gross earnings of public service enterprises were reported as a revenue item; but beginning with 1937 only contributions from the net earnings of public service enterprises to the general funds of the states are

reported as state revenues. Gross utility earnings for 1922, 1927, and 1932 are deducted from total state revenues and from non-tax revenues in Tables 1 and 2 to make these as nearly comparable with later statistics as possible, but to the extent that contributions of surplus earnings are involved the data are non-comparable. (2) No complete adjustment is possible to unify the treatment of state-collected, locally-shared taxes. Prior to 1937 such taxes were classified as non-revenue receipts of the states and consequently were not reported. Beginning with 1937 and continuing through 1940 receipts from this source were separately reported. In 1941 and in subsequent years they have been combined with other revenues, so that separation is impossible. The nearest approach, therefore, to comparability is to show total state revenues exclusive of locally-shared taxes prior to 1937 and to include receipts from this source for subsequent years. (3) The Census Bureau's treatment of trust and sinking fund transactions constitutes another distorting factor contributing to non-comparability of state revenue data concerning which no complete adjustment is possible. Prior to 1941 receipts of these funds were consolidated with and reported as general fund revenues. Since 1941, however, only taxes collected for trust and sinking fund purposes are reported as general fund revenues. (4) Other discrepancies of minor importance may also be present in the revenue figures for 1922, 1927, and 1932 which render these data non-comparable with those for more recent years.

Fortunately, the discrepancies in total state revenues arising from differences in reporting methods are not large. Locally-shared taxes and contributions from the net income of public service enterprises were both minor items in total state revenues during the earlier years; and the non-tax receipts of trust and sinking funds which have not been reported since 1941 are probably not great.

Certain adjustments in the reported data are necessary in order to get comparable classification of receipts according to sources. To the extent necessary these are made in accordance with explanations set out in the Census Bureau's reports on state finances. It is impossible, however, to adjust completely the data prior to 1937. As a consequence state revenues for 1922, 1927, and 1932 are only partially shown by sources.

STATISTICS RELATING TO STATE EXPENDITURES

Because of changes made in 1937 and in 1941 in the Census Bureau's plan of presenting expenditure data for the states, it is impossible accurately to compare the data for these years with those for earlier years. Contributions to public service enterprises were not separately reported prior to 1937. In this respect the data are non-comparable. The discrepancy, however, is not believed to be great. Adjustments can perhaps be made for 1941 changes except for the different treatment accorded sinking and trust funds and state-collected, locally-shared taxes. Beginning with 1941, payments from trust and sinking funds are presented separately from general fund expenditures of the states. Prior to 1941, statistics for all funds—except data pertaining to public service enterprises—were combined and reported only in consolidated figures. Similarly, state-collected, locally-shared taxes were treated as non-cost transactions prior to 1941 but have subsequently been classified as payments for state aid to local governments.

Percentage distribution of state cost payments prior to 1941 accord with the data presented in the United States Bureau of the Census, *Financial Statistics of States: 1938*, Tables 11-A and 12-A. The necessary adjustments for functional comparability are outlined in detail in Figure 2 of the same report.

State expenditure data for 1941-43 (shown only in part in the tables and relied on for the text) are available directly from

United States Bureau of the Census, *State Finances: 1942* and *State Finances: 1943*. All necessary adjustments are made in these reports to render the data strictly comparable for the three years.

STATISTICS RELATING TO FISCAL AIDS

Fiscal aid data are in large measure non-comparable owing to differences in classification and reporting methods employed by the Bureau of the Census. Certain data for the United States as a whole are practically comparable for particular years, but it is not feasible to show a state-by-state picture on a comprehensive basis. Furthermore, data regarding the long range development of state aids for individual governmental units and for specific purposes are not sufficiently comparable to justify their presentation at length.

STATISTICS RELATING TO LOCAL FINANCES

City finances are regularly reported annually only for cities having over 100,000 population. Even with cities of this size it is not feasible to present revenue trends extending over several years because of changes in the Census Bureau's methods of reporting the data. Table 6 shows cost payment data for selected years, but major adjustments in figures for the earlier years have been needed in order to obtain any semblance of comparability. In adjusting the 1926 and 1936 expenditure figures procedures were followed which the Bureau of the Census worked out in detail. Except for certain necessary estimates these procedures are shown in *Financial Statistics of Cities: 1937*. The data presented are practically comparable except in certain functional classifications; even as to these exceptional classes, according to the Census Bureau, the discrepancies are probably slight.

Local finance data extending over a period of years, or even during the war years, for counties, school districts, and other

local governments are decidedly meager. The Bureau of the Census published a report (1941) showing statistics roughly comparable with 1932 and 1940 for a number of large counties, mostly metropolitan centers, but only four southern counties are consistently reported. There is no satisfactory basis for comparison of 1942 county finances with any other recent year's record. Full information on local debt is available only sketchily except for decennial years and for 1940. Because of this paucity in local finance statistics, it has been necessary in depicting the trends in southern local finance to rely in part on sampling financial reports of local governmental units, and on state reports which assemble such data, as a supplement to the statistical reports of the Bureau of the Census.

Despite sources of error such as have already been outlined, there is little doubt that the most fundamental impediment to quantitative analysis of southern state and especially local finance data lies in the deficiencies of local accounting and other records which yield the statistics used. This consideration is more serious as to available expenditure figures than as to other fiscal data. It is a definite limitation on all statistics of local finances for southern states generally. The principal reasons are that local bookkeepers do not make consistent classifications of data and that the figures derived from the records do not lend themselves to uniform classification.