VIRGINIA'S RESPONSE TO THE GREAT DEPRESSION:

REVENUES AND EXPENDITURES

By

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Abstract

During the Great Depression, states were forced to decide how to approach taxation and spending issues. Deficit spending was a relatively new theory at the time so many states took a very conservative approach. Virginia, even as a heavily Democratic southern state, was one of the states that was very conservative and disagreed with President Roosevelt's New Deal. Virginian officials believed their highest priority was avoiding a deficit, followed by helping the people. This paper shows how the state governments chose to tax and spend with a comparison to comparable states.

After completing a narrative of the political landscape, a regression analysis was completed to analyze independent variables and their relationship to per capita state tax revenue. Positive correlations indicated per capita state tax revenue increased as the independent variable increased. This analysis is very important to governments even today to develop public policies to help state revenues during a depression.

Virginia's Response to the Great Depression

Kevin Spinner

The Great Depression spawned many new laws both at the federal and state levels that were focused on helping those most hurt by the economic downturn. President Roosevelt's New Deal expanded the reach of the federal government to help those in need by establishing unemployment benefits, public works programs and other welfare programs. Even though the president was a progressive Democrat, he did not have the following of all Democrats. One of the president's harshest critics was a powerful Democratic senator from Virginia, Senator Harry Byrd. Byrd supported balanced budgets, states' rights and reduced government spending. As governor, Byrd lowered taxes in his state and as senator opposed most spending programs, even those designed to help citizens of Virginia. The governors who followed Byrd believed in his style of government too, and were part of the "Byrd Organization." Spending on welfare during the Great Depression was very small in Virginia. Over 90 percent of welfare relief spending was from the federal government, not the state of Virginia. Taxes were relatively stagnant except for gasoline and alcohol, but this was the first time these commodities were being taxed in the state.

Taxation

Taxation rarely rose in Virginia because of the fundamental beliefs of state officials in fiscal conservatism. Fiscal conservatism was prominent in the state legislature as well, so low tax rates along with low spending were goals in order to make Virginia the most business friendly state in the United States. Taxes were raised in certain situations though, mostly to avoid a deficit or to promote fairness in the system. Raising gasoline taxes was the main revenue for road construction because Virginian roads were infamous for being unreliable and in awful shape. Taxes for public schools and alcohol were raised to pay for a longer school year and a commission to limit the consumption of alcohol. In the years leading up to the Great Depression, the way Virginians actually paid their taxes changed drastically. The pay-as-you-go system was the plan of the young Harry Byrd who promoted it as a way of paying for the road construction and every other appropriation later on. This tax system was innovative at the time and is still being used by many state governments and the federal government.

The pay-as-you-go system of paying taxes allows the government to take a part of a worker's paycheck every pay period instead of having citizens pay a lump sum amount at the end of every year. This plan was implemented on the federal level when President Roosevelt endorsed the plan, and is still the way American workers pay their federal taxes. In Virginia, this plan was endorsed and fought fiercely for by an up and coming Democrat named Harry Byrd ("The 1923"). At the time Governor Trinkle opposed Byrd and supported issuing bonds for state debt rather than changing the tax system ("The 1923"). Both men had their political careers in jeopardy because the loser would most likely lose political power.

States across the country were faced with decisions on how to pay for developing highway systems, bonds, or gasoline taxes financed with a pay-as-you-go system. Roads in Virginia were considered very poor because of the state government's fiscal conservatism and unwillingness to spend to improve the infrastructure ("The 1923"). In 1923, the legislature was deciding whether to issue bonds to pay for highway construction or follow Byrd's plan of implementing a pay-as-you-go taxation system and pay for the roads with a gasoline tax ("The 1923"). Governor Trinkle supported a bond issuance and his support helped pass bills in both houses of the state legislature, but the bills could not be reconciled so the bill died. This left an opening for the pay-as-you-go proponents.

Governor Trinkle called a special session in 1923 to decide on the issue, and surprisingly changed his position completely and supported a pay-as-you-go system ("The 1923"). The governor said he believed a 3 cent gasoline tax would be enough to pay for road construction, but not everyone was convinced. A month long struggle ensued ending with the adoption of the pay-as-you-go system that Byrd proposed. The law read as follows:

> "There is hereby levied a tax of 2 cents per gallon on all motor vehicle fuels…which is sold and delivered here in the State…The said tax shall be paid on or before the 20th day of each month…" ("United States")

Overall the tax ended up being a 3 cent increase even though it was only stated as being 2 cents in this excerpt. What is important in addition to the gasoline tax is that it would be paid every month using the pay-as-you-go method.

Also in 1923, Governor Trinkle surprised the public in announcing a state deficit of $1.8 million (Heinemann 44). The governor blamed the deficit on worsening economic conditions and said the deficit would be turned around by the next year (Heinemann 44). However, this outraged the public, especially Harry Byrd. Byrd used this as political capital by criticizing the governor for the deficit and saw this as a violation of his duties to the citizens of Virginia (Heinemann 44). Repeated deficits could leave the state in jeopardy of default, Byrd said, so he convinced everyone that pay-as-you-go was the correct way for all appropriations not just roads (Heinemann 44). The public and legislature obliged, and pay-as-you-go became the standard and is the basis for most tax collections (Heinemann 44).

When Byrd took office as governor in 1926, he overhauled the tax system regarding real estate and tangible personal property taxes (Heinemann 60). These taxes were to be collected by local governments, which were to leave the main sources of revenue like income taxes to the state (Heinemann 60). Byrd believed this system of taxation provided more fairness to municipal and county governments but did result in $3.1 million in lost revenue for the state legislature (Heinemann 60). This shortfall was covered by an increase in the auto license tax, the tax on public utilities income, and taxes on rolling railroad stock (Heinemann 60). Rather than taxing car owners based on horsepower, the new auto license tax taxed owners based on the weight of their cars and was projected to bring in extra revenue.

Governor Byrd believed in a system of fairness for taxation centered on being business friendly and never having deficits (Heinemann 60). Aside from the gasoline tax implemented to begin the pay-as-you-go system and pay for road construction, an additional 1 cent tax was levied for the same purpose just prior to the Great Depression (Heinemann 60). Taxes on industrial capital were lowered to encourage more economic development in addition to the capital gains tax. In order to pay for these tax reductions, Byrd raised taxes on family incomes over $5,000 by a percentage point to avoid deficits (Heinemann 60).

Poll taxes in Virginia were prevalent during this time period. Originally established as a way to pay for public schools, the poll taxes were later used to disenfranchise African Americans after the Civil War ("Poll Tax"). The poll tax in Virginia was $1.50 and had to be paid at least 6 months before the general election (Heinemann 12). Irregularities like discrepancies in absentee voting and block payments of poll taxes were commonplace in elections, meaning those in power bent the rules in their favor to make sure their voters were "registered" (Heinemann 38). In many cases, cozy relationships between Democratic registrars and Democratic officials helped guarantee that reliably Democratic voters were registered to vote for upcoming elections no matter the circumstances.

Governor Price proposed reducing the poll tax from $1.50 to $1.00 in 1938 accusing elected officials of taking advantage of the situation and refusing to register certain voters ("Poll Tax"). The main force against the governor was Harry Byrd once again. Once the resolution made it to the floor of the state legislature it was defeated by Byrd and his allies ("Poll Tax"). In 1941, Price petitioned the Virginia Advisory Legislative Council to investigate the purpose and effect of the poll tax, and came back with damning findings ("Poll Tax"). The Council found the tax to be a form of corruption and that certain registrars would not register any Republicans whatsoever and immediately called for its repeal ("Poll Tax"). However, political forces kept the report from being published, thus ending any opposition to the poll tax ("Poll Tax"). Officials used the poll tax as a way of keeping Republican voters, mainly blacks, away from the polls and ensuring Democratic voters were registered even though the law was masked as a way of raising revenue for the state (Heinemann 38).

The unemployment level in Virginia steadily rose for all demographics during the 1930's, but unemployment was especially high for the black community. Even for those who had jobs received extremely low pay for their work (Dabney 490). Oftentimes, white workers received more than ten times the amount a black worker received for the same job. Black workers resorted to strikes to earn more money, but did not gain too much as a result (Dabney 490). A massive strike in 1938 helped blacks make an extra dollar per week, but white workers benefited the same amount as well (Dabney 490). Nothing in the legislature was done to combat this injustice, leaving black unemployment at very high levels and receiving low pay.

State taxes increased for both public schools and alcohol during the Peery administration from 1934-1938. Peery, slightly more liberal than Harry Byrd, proposed an increase in taxes to fund the public schools in order to have an 8 month school year (Heinemann 165). Considering Byrd's past, it was surprising when he chose to endorse the plan and even lobbied his friends in the legislature to make sure the measure passed (Heinemann 165). For alcohol, Governor Peery supported changing the way government controlled the consumption of alcohol entirely by creating the Alcoholic Beverage Control Board (ABC) (Heinemann 165). Revenues from alcohol taxes almost tripled from 1935 to 1937, with the state receiving nearly $2 million in 1937.

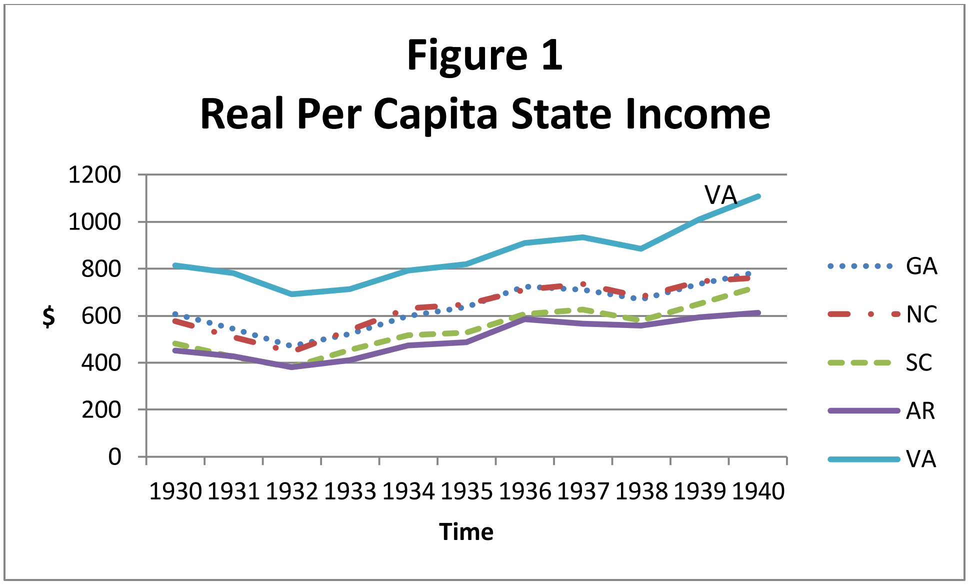
Harry Byrd

Senator Byrd's belief in limited government intervention and decreased spending was a central focus of his governorship of Virginia from 1926-1930. As governor, he took eighty five different state government programs that he viewed to be pure bureaucracies and reduced them to just twelve efficient departments ("Democrats"). Some of the agencies that were combined were overlapping tax collection agencies. By getting rid of useless agencies with overlapping duties, Byrd saved the state $1.5 million ("Democrats"). The governor was always in favor of a balanced budget because he did not want to pass the burden onto the next generation, something we hear all the time in modern politics.

Governor Byrd was a big proponent of making Virginia the most business friendly environment in the country, although he did take a stand over certain industries like oil companies (Dabney 482). Gasoline prices in Virginia were significantly higher than in other states, so Byrd's solution to this issue required oil companies to "furnish the governor with their wholesale and retail gasoline prices in Virginia and other states" (Dabney 483).

Byrd's fiscal conservatism is shown by the fact that he left a surplus in the state treasury after leaving office (Dabney 484). Reducing taxes was a major part of his strategy as governor too. His surplus of almost $3 million is even more impressive knowing that Byrd implemented a major tax reduction midway through his term. Byrd viewed higher taxes as anti-business, so he lowered taxes in an effort to entice more businesses to move to his state. Reduced government intervention and lower taxes were the staples of the Byrd governorship, and was the same type of approach Byrd wanted to take to the U.S. Senate.

In the years leading up to the stock market crash in 1929, Virginia had a strong economy relative to the rest of the country. Virginia had a diversified economy consisting of agriculture, manufacturing and trade (Dabney 488). According to Dabney, 51% of homes in Virginia were owned compared to only 47% nationally. This home average pairs well with the fact that there were a lower percentage of subsistence farmers in Virginia, who tended to use more modern tools than most states as well. Figure 1 shows that real per capita income levels for Virginia were higher than in surrounding states throughout the period.



Also, more home ownership and modern farm tools allowed the Virginian economy do well until the drought during the summer of 1930. Governor Byrd was renowned for his ability to handle difficult situations like tax issues and bonds but had not faced a serious economic crisis until the latter part of his term. After the stock market crash in 1929, Byrd proposed and passed through the legislature a law in which the state took over county road systems to relieve cash strapped localities mostly dependent on real estate taxes (Younger 244). The state, however, would never use deficit spending under Byrd's authority to relieve localities or citizens in difficult situations. According to more liberal Democrats of his time, this was a major mistake because he was squandering the opportunity to help those most in need by using deficit spending and raising taxes.

These conditions prior to the Great Depression allowed for an easier transition into more difficult times, but the summer of 1930 was a disaster in Virginia. A massive drought overtook the state, with rainfall at only 60% of normal levels (Younger 488). This drought destroyed crops and left cattle starved and without water to drink. At this point, Harry Byrd was the head of the Virginia Drought Relief Commission and demanded federal relief (Younger 489). This was one of only a few times that Byrd felt the federal government had an obligation to spend money for relief programs. It is not clear why this was different from later relief programs designed to help farmers and those in economic distress but Byrd would oppose all those initiatives. Harry Byrd believed it was not the obligation of the state of Virginia to provide relief to her own citizens.

As a senator, Byrd opposed just about every federal spending program including education, welfare, and public works programs. ("Harry"). A huge proponent of states' rights, Byrd opposed matching any federal appropriations in Virginia, meaning the federal government was paying the vast majority of the relief programs in the state. There have not been many congressmen in history who opposed massive government spending in their state, but both Virginian senators did so during the 1930's regarding the New Deal. Most congressional members who hold strong beliefs against increasing government spending still will support federal projects within their district or state, but not Senators Byrd or Glass.

During the Roosevelt administration, federal spending increased exponentially despite opposition by Virginian political leaders. The Federal Emergency Relief Administration, or FERA, subsidized 500,000 Virginians with food, clothing, housing, and work relief for the neediest of the unemployed ("Harry"). Of those Virginians receiving federal aid, over 40,000 were part of work relief programs designed to directly benefit both the present and future of Virginia. The Public Works Administration built electric power plants, hospitals, public housing and libraries in an attempt to revive the struggling economy ("Harry"). Among other relief efforts in Virginia subsidized by the federal government were the Civilian Conservation Corps (CCC) and the Agricultural Adjustment Agency (AAA). Senator Byrd opposed all of these plans, specifically the AAA and any effort to prop up farm prices through acreage reduction subsidies because he found the policies to be coercive and not helpful to the common farmer. However, the farmers overwhelmingly endorsed the agency and their efforts because farmers saw rising incomes and prices (“Harry”).

In 1935 when the Roosevelt administration passed the Second New Deal, federal expenses were once again increased, and Virginia saw more federal aid in the state. One of the significant parts of the Second New Deal that dealt with labor conditions was the Wagner Act. The Wagner Act would eventually lead to more workers across the nation entering collective bargaing agreements and joining unions. Union workers in Virginia went on strike numerous times during this time period, including famous sit-down strikes that resulted in increased wages and the establishment of a 40 hour work week for the first time in Virginia. Senator Byrd opposed these changes, as he was anti-union and much more pro-business than the president (“Harry”).

In addition to the Wagner Act, the Works Progress Administration (WPA) and the Social Security Act were also created as part of the Second New Deal. State officials could not stop this work relief program from being enacted in Virginia, so no real fight ensued over the WPA. The WPA played an active role in the Virginian recovery by constructing roads, bridges, schools, airports and generally put unemployed white collar workers in a job. The Social Security Act was opposed by most state officials, including the two Virginia senators. This act established an old-age pension system for nonfarm workers throughout America, but Senator Byrd did not favor the plan because he predicted high future costs. In 1940 elderly Virginians started receiving benefits from the Social Security program but all workers began paying taxes into the program in 1936. Virginia later passed the enabling legislation for a means-tested old-age assistance program that provided income to the elderly poor to allow them to live on their own. Under the Fair Labor Standards Act a national minimum wage of $0.25/hour was established by Congress in 1938 ("Harry").

Senator Byrd did not have any significant legislation tied to his name because he was opposed to most of Roosevelt's New Deal measures. He was one of only six who voted against the Social Security Act and was actively against farm programs. The senator once said the federal government was making "criminals of those who plant in excess" of the allocations set for farmers who were paid to take land out of crop production. The president passed his New Deal despite the objections of Virginia Senators. Senator Byrd's actions supporting federal aid to farmers during the drought of 1930 does not coincide with his opposition to farm programs during the New Deal, either because of his personal disdain for the president or a change in his policies. It is not clear which is correct, but the New Deal spending did increase household incomes and established more fair work requirements within Virginia. Difficult times result in hostile debates over policy, and this certainly happened in Virginia during the 1930's.

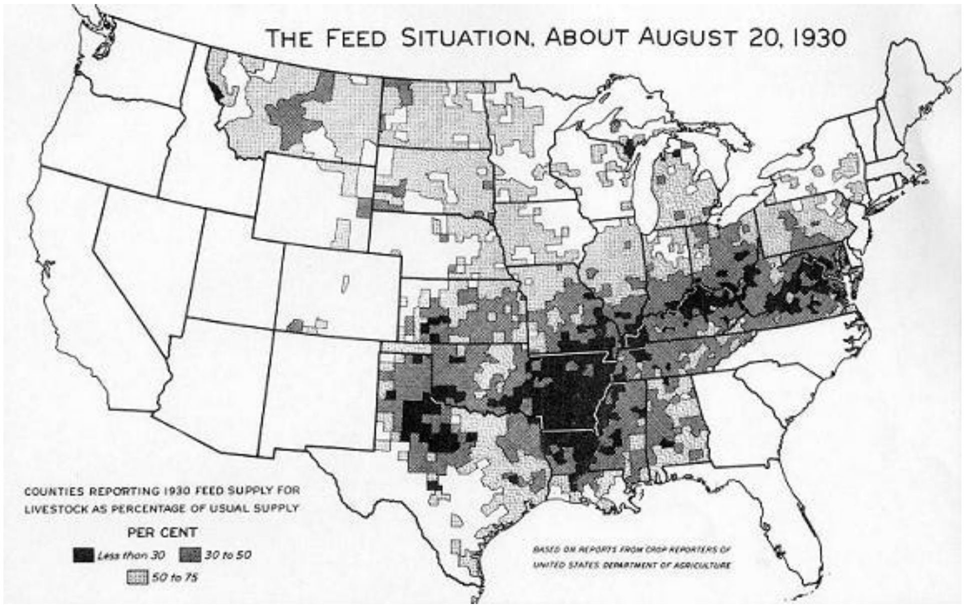
Governor Pollard succeeded Byrd in 1930. He inherited a state that was restricting state services due to decreased revenues (Younger 253). Pollard believed the services were inefficient, and in some cases corrupt, as county officials were severely hindering a collective response to the Great Depression (254). These officials were charging additional fees and inflating their salaries without regard for the public, so Pollard created a Commission to Study Local Governments that greatly reduced the powers of corrupt officials by watching them closely to avoid ethical issues (Younger 254). This law was officially adopted by the General Assembly in 1932 despite the opposition from the county officials who ran a very aggressive campaign to defeat it.

The Great Drought

The Great Drought of 1930 hit the South hard, including Virginian farmers. This unexpected disaster was especially harmful to farmers who could no longer grow crops, feed livestock or even themselves. The federal government's response was limited and counted on state governments to deal with the situation ("The Response"). President Hoover believed private goodwill provided by common people as well as the Red Cross would provide the best help to those hurting ("The Response"). In addition to this private goodwill, state and local governments, who have better information about their specific state, can provide better care than the federal government on a local level. This approach seemed to be working initially after the president struck a deal with the railroad companies.

President Hoover convinced the railroad companies to drop their prices by 50 to 66 percent in early 1930 ("The Response"). Over 1,000 counties across the nation received this discounted rate for goods such as livestock, hay, feed and water ("The Response"). President Hoover's plan fell apart when the railroads companies felt like they had given enough to the cause by October and raised their rates once again ("The Reponse"). Another initiative of the Hoover administration was to encourage banks to provide drought-stricken farmers with credit. This measure failed too because banks did not feel comfortable giving loans when it was not clear if farmers could repay. This along with another slow response to a disaster compounded the criticisms against the president.

The drought significantly affected most of Virginia. With precipitation levels at 60% of normal levels, crops were destroyed (Dabney 488). The following picture shows the extent of the drought throughout the United States:



The darker colors show the worst cases of drought, including most of Northern Virginia. Governor Pollard's response to the drought was to create a State Drought Relief Committee and he appointed Harry Byrd chairman (Younger 255). Byrd sought federal assistance, but Hoover was still against federal intervention. Overall, this drought caused farm incomes to decrease dramatically, which resulted in lower tax revenues. The drought in many ways hurt Virginia more than the stock market crash the year before. Precipitation finally came that winter in the form of snow and relieved farmers all across the country.

Just because the drought ended in late 1930 did not mean farm incomes began rising again. Tobacco and wool prices dropped an average of 60% and corn 26% (Younger 255). Overall output from Virginian farmers decreased by 17%, leading to food shortages were on the horizon (Younger 255). State officials needed to decide how to deal with this issue, and like usual Harry Byrd had significant input. Even though Byrd was no longer the governor, he still had lots of say when current Governor Pollard made decisions regarding appropriations and taxes. Byrd said the most important issue for the state was balancing the budget to avoid deficit spending, but the final decision was up to Governor Pollard.

Governor Pollard needed to make a decision between spending more on education, which was his preference, and balancing the state budget. Pollard considered changing the tax code in Virginia in order to help struggling farmers and industrial workers but this plan did not coincide with Byrd's vision of lower taxes to encourage more corporate activity in the state (Younger 255). Byrd's political strength won out and Pollard decided to balance the budget and forgo spending on education (Younger 255). This decision had widespread implications for Virginians, especially farmers because they were now only receiving federal relief. While federal relief programs within the state were significant and helpful, farmers were disappointed to hear the state would not help.

By 1932, Pollard was mostly a puppet governor acting on behalf of former Governor Byrd. Byrd's financial reforms of slashing appropriations during his term left Pollard in a difficult position because he once again faced decisions about whether to raise taxes or cut spending (Younger 256). Pollard desperately wanted to avoid deficit spending because of the precedent Byrd created, but also cared about education and welfare programs. However, Governor Pollard was easily influenced by Harry Byrd. Byrd actually convinced Pollard to cede financial power to him in 1932, meaning employee salaries were withheld by Byrd until the state treasury could show they would not run a deficit that fiscal year (Younger 256). Once Byrd knew that the treasury was not running a deficit, employee salaries were distributed. However, if the treasury could not avoid a deficit, Byrd's plan would have left state employees without any pay for their work. Governor Pollard had effectively ceded control of state finances over to Byrd and had to run any ideas by him before being implemented (Younger 256).

The response from the state government concerning the Great Depression and Great Drought of 1930 was very limited. Governor Pollard was in power during these crises but could not muster the courage to oppose Harry Byrd on issues regarding taxes, appropriations and work relief programs. The drought caused crops all across the state to die and leave livestock without any food. Falling prices and a massive drought were devastating for Virginian farmers and those across the South. Governor Pollard wanted to help by spending on welfare and education, but could not gather the support from other local leaders to make this a reality. By the end of Pollard's term in 1934, no significant initiatives had been completed to combat these crises.

Public Works Programs

When Governor George Peery took office in 1934, he was a strong proponent of a balanced budget and conservative ideals. Peery believed his election was an endorsement of the Byrd-Pollard record and sought to continue their efforts (Younger 268). The cost of progress was a deficit, he said, but progress had to be confined within a balanced budget (Younger 268). Peery's first interaction with the General Assembly was over taxes. Peery, in a surprising turn, wanted an increase in taxes to pay for increased appropriations for education (Younger 268). Taxes on personal incomes would rise along with taxes on inheritances and corporation dividends (Younger 268). Peery sought to offset these tax increases by decreasing the auto license fees by almost $2 million, but this proposal saw stiff opposition. Conservatives in the General Assembly were joined by virtually the entire press corps in opposing the plan. Harry Byrd's intervention and endorsement of the governor's plan helped Peery get it passed. However, Peery still needed to be politically savvy to get his bill passed. Peery decided to hold up an alcohol control bill that had widespread support to get the attention of the legislature. After a small compromise, Peery saw his bill passed and he won a huge victory (Younger 269).

At the conclusion of the 1934 legislative session, neither major social nor economic issues had been dealt with. Virginia's economy was still much better than in most southern states because of the economy's pre-depression strength. As seen in Figure 1, real per capita income levels in Virginia were about 33 percent higher than in surrounding states. However, unemployment was still above 125,000 with over 200,000 people receiving aid from the commonwealth. Governor Peery's efforts to avoid deficits were aided greatly by the $26 million in federal aid being spent in Virginia to cover costs that otherwise would have been incurred by the state. Most of this money went to infrastructure projects like airports, roads, and parks. However, millions went to other programs like malaria control, better sanitation facilities, and schools (Dabney 493). Peery adamantly believed that large-scale relief spending inevitably led to deficit spending and diminished individual initiative (Younger 270). However, Peery also believed that if the federal government was spending lavishly, his state might as well get its cut of the money. Federal Emergency Relief Administration (FERA) administrator Harry Hopkins was so disappointed with the state's lack of contribution to relief efforts that he threatened to cut off Virginia's share (Younger 270). Peery responded by saying spending money for the state highway system was the same thing as relief spending ("George"). It is not clear whether Hopkins believed the argument, but he never cut off aid to Virginia, so FERA covered more than 90 percent of the relief spending in the commonwealth of Virginia during 1934-1935 ("George"). Their fear was that those unemployed would become dependent on the government and their integrity would be compromised. Clearly, this position differs from Governor Peery who thought it was the obligation of the state to help the unemployed.

Senator Byrd once described the policies of the Roosevelt administration as “the most wasteful and bureaucratic form of government that has been known in our history” (Dabney 502). Byrd’s style of government as governor and later as a senator was much more conservative and did not rely on many government programs. However, there were some state funded programs within Virginia. One of the few work relief programs implemented by the state of Virginia used nearly $2 million in state funds to help construct and renovate roads (Dabney 502). The impact of this program was unsubstantial in the sense that it was a continuation of the federal highway programs of the 1920s and this money likely would have been spent with or without a depression to make Virginia more attractive to businesses and tourists. State officials used this program to say they are helping the unemployed but it was never considered a serious welfare program.

The Works Progress Administration (WPA) made its appearance in Virginia after FERA by putting the needy to work on mostly infrastructure projects. General James Anderson headed the WPA office within Virginia and spent $30 million dollars on new sewer lines, libraries, dormitories, and hospitals (Dabney 495). These programs had permanent value that the public could benefit from for years. The programs also included spending for beautification and the arts. Unemployed black women laid the now famous azalea gardens in Norfolk that continue to draw visitors today (Dabney 495). Other unemployed workers were paid to create artwork such as musical compositions and projects for writers (Dabney 495). The Tennessee Valley Authority (TVA) had a smaller impact within the commonwealth, as it serviced about 5,000 farmers in southwest Virginia with 250,000 acres of fertilizers (Dabney 495). The TVA is known for building dams along the Tennessee River, and did not have a large impact in Virginia.

One of the smaller but very important programs in the New Deal was the establishment of the Rural Electrification Administration (REA) (Dabney 495). This administration's purpose was to provide rural Virginians, mostly farmers, with access to electricity. In 1934, less than 8% of farmers had this access to electricity (Dabney 495). This program did take a few years to get running, but within a decade after being established, nearly all farmers had electrified farms. This was so important because electricity provided lighting, improved living standards and reduced workloads (Dabney 495).

In the 1936 legislative session, Peery called for more spending but also emphasized a balanced budget. Peery's budget included more education spending, $8 million for road construction, $2 million for direct relief, and a state unemployment insurance plan (Younger 271). Failure to adopt an unemployment insurance plan would keep Virginia workers from having unemployment benefits, but adopting Old Age Assistance would cost anywhere between $2 million and $11 million for old-age pension plans. The General Assembly adopted all of Peery's recommendations except the unemployment insurance plan (Younger 271). One state senator said the most important issue was a balanced budget, and that could not be reached with all the spending Peery called for (Younger 271).

More conservative Democrats in Virginia were skeptical of Governor Peery's plan for unemployment insurance if it meant taxes in Virginia had to be increased ("Va. Labor"). The Governor's plan called it the responsibility of the state of Virginia to care for those who were capable and willing to work but fired due to the struggling economy ("Va. Labor"). Governor Peery assuaged fears of higher taxes on Virginians when he proposed:

> "Sixth, the cost of unemployment insurance will be paid out of the tax increased by the federal government and will mean no additional taxes to Virginian employers or any other citizens…" ("Va. Labor")

This did not persuade the very conservative Democrats like Senators Byrd and Glass to endorse the unemployment insurance plan because it still meant an increase in taxes at the federal level to pay for it. However, not having to increase state taxes did help the plan to pass the legislature with widespread support and led to its implementation. When other states began enacting unemployment insurance plans, Peery called a special session after making sure he had the votes to pass it. In December of 1937, a State Unemployment Compensation Commission was officially created to supervise the collection of the subsequent taxes from employers (Younger 272). This was the last piece of major legislation passed under the Peery administration, and he left office in 1938.

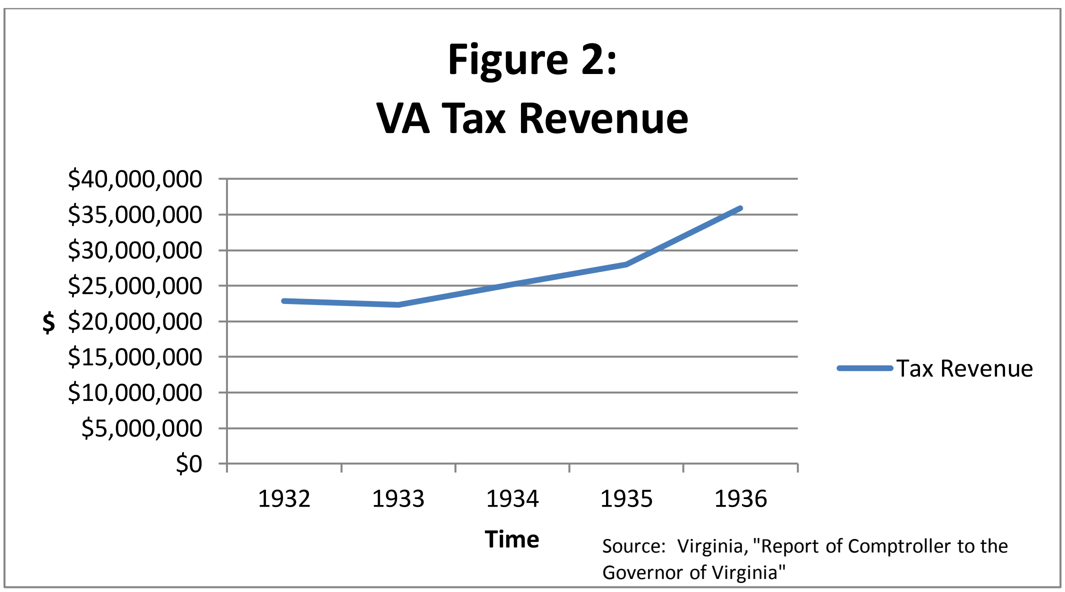
James Price was the last governor to be in office during the Great Depression. Governor Price was unique because he was elected governor without the blessing of Harry Byrd during a period of Virginia politics where Byrd called almost every shot (Younger 277). Price was much more liberal than his predecessors, and did not have a great relationship with Senator Byrd. Price endorsed the agenda of President Roosevelt, who was not very popular in Virginia politics (Younger 280). Governor Price pushed for passage of legislation regarding conformity to the Social Security Act, increasing teachers' salaries, and providing free textbooks to children while still having a balanced budget (Younger 283). By increasing government efficiency, Price believed a balanced budget was possible even with the increase in spending. Price was able to pass his legislation fairly easily despite opposition from Harry Byrd and he proved to be a savvy executive.

Governor Price's biggest mistake in office was firing the State Compensation Commission chairman E. R. Combs in 1940 ("James"). Combs was part of the Byrd organization, and loyal Byrd followers were outraged when they heard about the firing. Any chance Price had of continuing to work with the Byrd organization with more liberal legislation was destroyed ("James"). The Byrd organization stonewalled all further legislation despite Governor Price's efforts to regain their trust. Price's first year as governor was considered a success, but he spent the next couple years preparing Virginia for World War II and not much on relief programs.

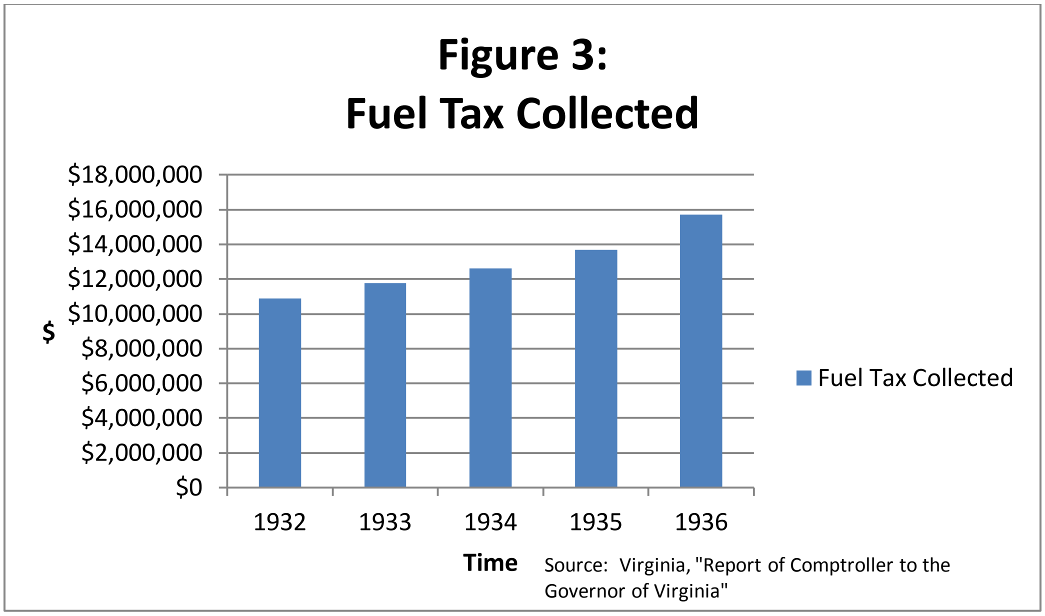
Virginian governors during the Great Depression followed in the footsteps of Harry Byrd for the most part. Fiscal conservatism and balanced budgets were emphasized rather than relief spending to help struggling demographics. Governor Pollard took office just after the stock market crash of 1929 and dealt with a major drought and worker strikes. His main focus entering office was on education, but he was not able to pass major legislation. Governor Peery was part of the Byrd organization like Pollard and took the same approach to governing. He was more independent from Harry Byrd and raised taxes on personal income to spend more on education. Finally, Governor Price was the outlier because he did not support fiscal conservatism in every situation. Under Price, the federal government had an active role in Virginia with relief programs like the PWA, WPA and FERA. FERA was the biggest spender by appropriating over $26 million for the state despite threatening to cut off funds because of inaction from the state legislature. Overall, the Virginian state government had a lax response to the Great Depression. Most officials wanted to let the economy fix itself and keep the state's fiscal house in order. Many people could have benefited from deficit spending, but the state was able to balanced budgets during the worst economic crisis in American history and that is certainly an accomplishment.

Taxation and Expenditures

The Virginia legislature took a hands-off approach to the Great Depression. State leaders believed in low taxes to encourage business activity and low spending to avoid deficits. The state did increase both expenditures and taxes during this period, but the ultimate goal of avoiding deficits was still achieved. The greatest increase in revenue came from the sale of alcoholic beverages after prohibition ended in 1933 and the greatest increase in expenditures were designed to create a Board to regulate the alcohol industry. Figure 2 shows the amount of tax revenue the state of Virginia collected during the 1930's:

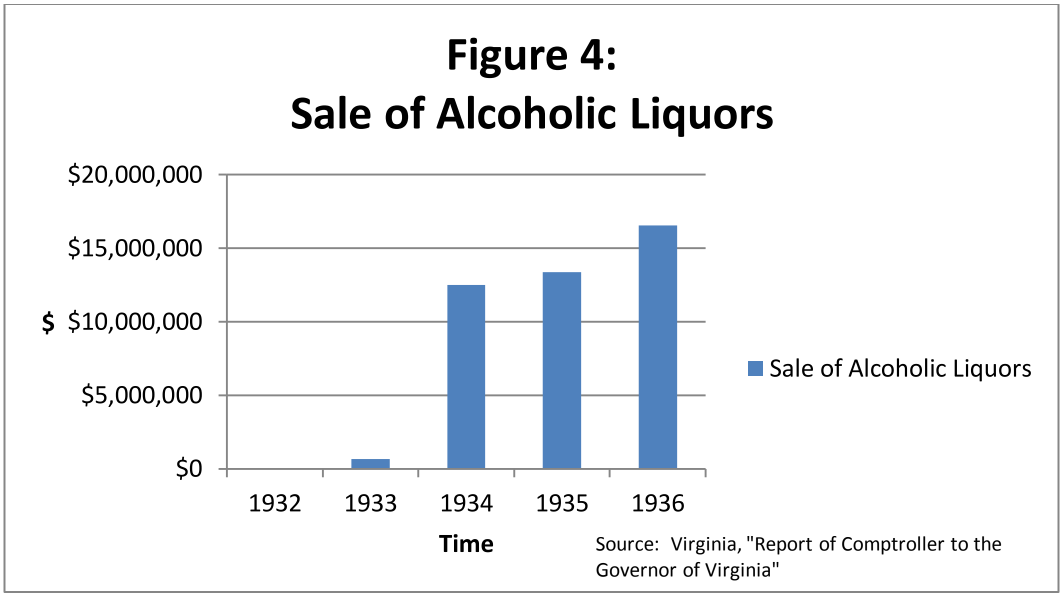


Revenue increased by about 45 percent over the course of a few years, which is attributed to a recovering economy and thus more income to tax and new gasoline and alcohol taxes. The income taxes collected from corporations increased substantially during this period, but the greatest increase in revenues from taxes came from the motor vehicle fuel tax. The amount collected is shown below:

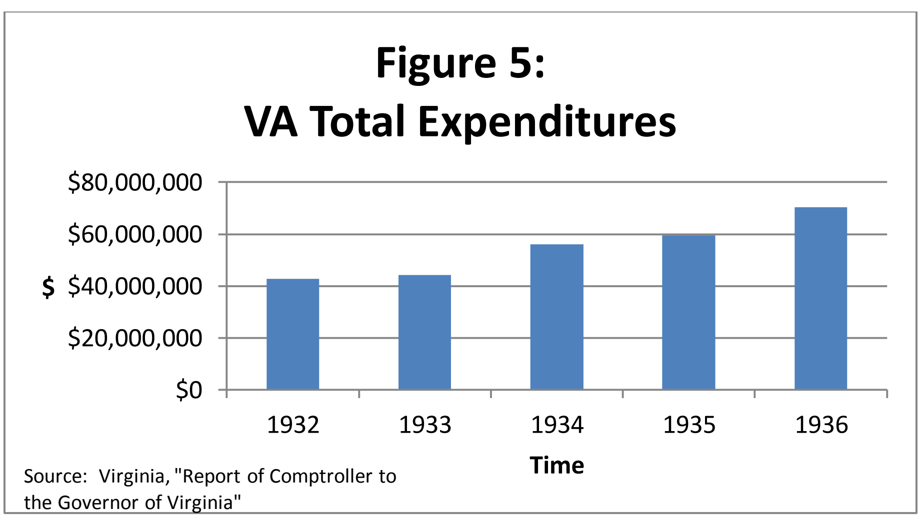


Gasoline taxes focused on the wealthy because they were the only people who could afford cars. Figure 3 shows that gasoline taxes alone resulted in an increase of about $5 million of the roughly $11 million increase per year in tax revenue from 1932 to 1936.

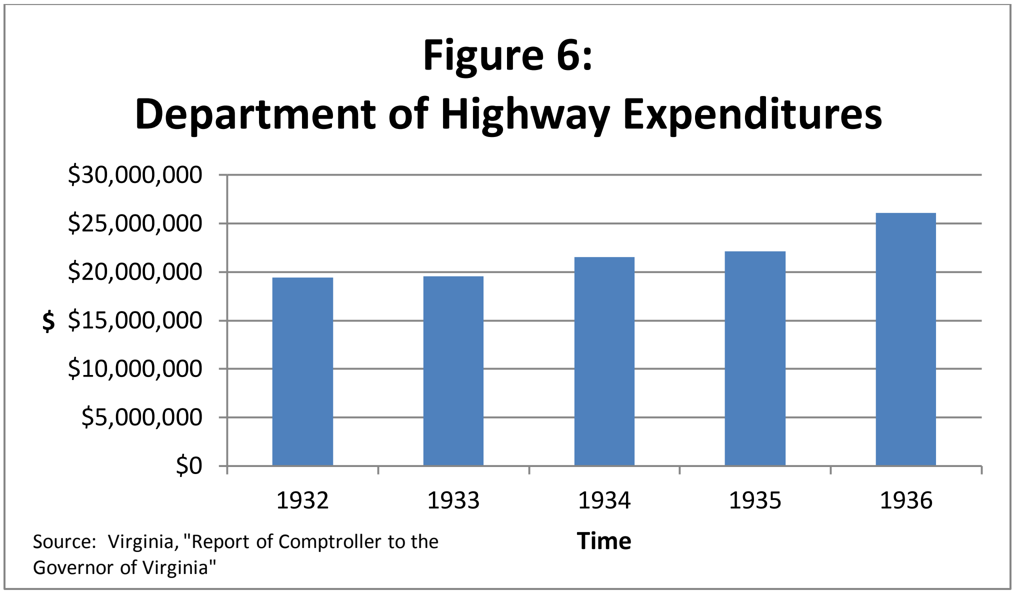
The state of Virginia also had a huge increase of revenue from the sale of alcohol and liquor. When prohibition ended in December 1933, many states took advantage of the renewed legal consumption of alcohol and taxed it to obtain a revenue stream. Figure 4 shows the increase in revenue solely from the sale of alcoholic beverages in Virginia:



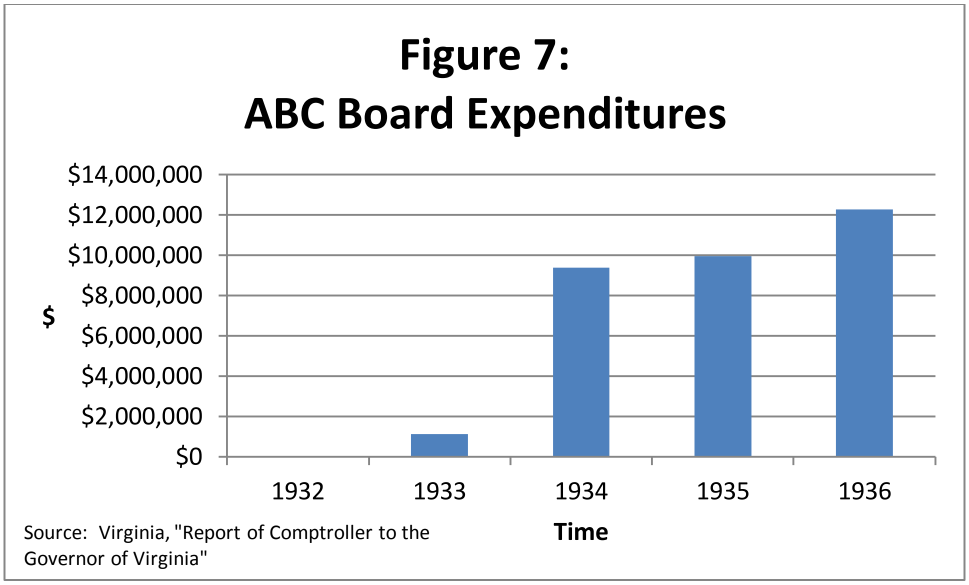
On the expenditure side, the state of Virginia refused many times to match federal spending within the state on public works programs. Because the state government believed it was their duty to avoid a deficit more so than help the people, Virginia relied on federal aid in many cases. The two categories into which Virginia poured money were highway construction and the Alcohol Beverage Control Board. Virginia increased the amount of spending for these two programs by about $20 million while increasing budgets for all other programs by only $8 million. Figure 5 shows the amount of expenditures:



The state government focused on highway spending because Virginia's political leaders believed that a business friendly society needed a strong road system to allow for commerce, so the state created temporary construction jobs and built a road system. Figure 6 below shows the expenditures for road construction:



As the graph shows, the amount spent on highways increased by about 25 percent, but the greatest increase in expenditures by far was implementing the Alcohol Beverage Control Board. The ABC was organized to control the production, sale, and consumption of alcohol within Virginia. The board was in charge of tax collection regarding alcohol as well. Figure 7 shows the amount spent by the government on the ABC:



In summary, Virginia officials made difficult decisions to not spend exorbitant amounts of money to create public works programs or stimulate the economy. What actions the government did take were focused on infrastructure like roads and highways and to control the new alcohol industry. Highway construction was seen as investments to draw more business activity more than as public works. Both taxes and expenditures increased during the Great Depression in Virginia though. Gasoline and alcohol taxes brought in large sums on money to be spent on the ABC Board and highways, and the state government was still able to complete these transactions while keeping a balanced budget.

Data Categorization for Virginia

After completing a history of Virginia during the 1930's, I was interested in gathering data for the state of Virginia and comparing this to surrounding states. This comparison allows for more understanding to see how the hardships in Virginia compared to other states. A series of data gathered by the federal government didn't compare well with states because states compiled and labeled revenues and expenditures differently. I had to take what Virginia had done and translate this to federal categorization standards. After doing this, the comparison discussed above would be possible.

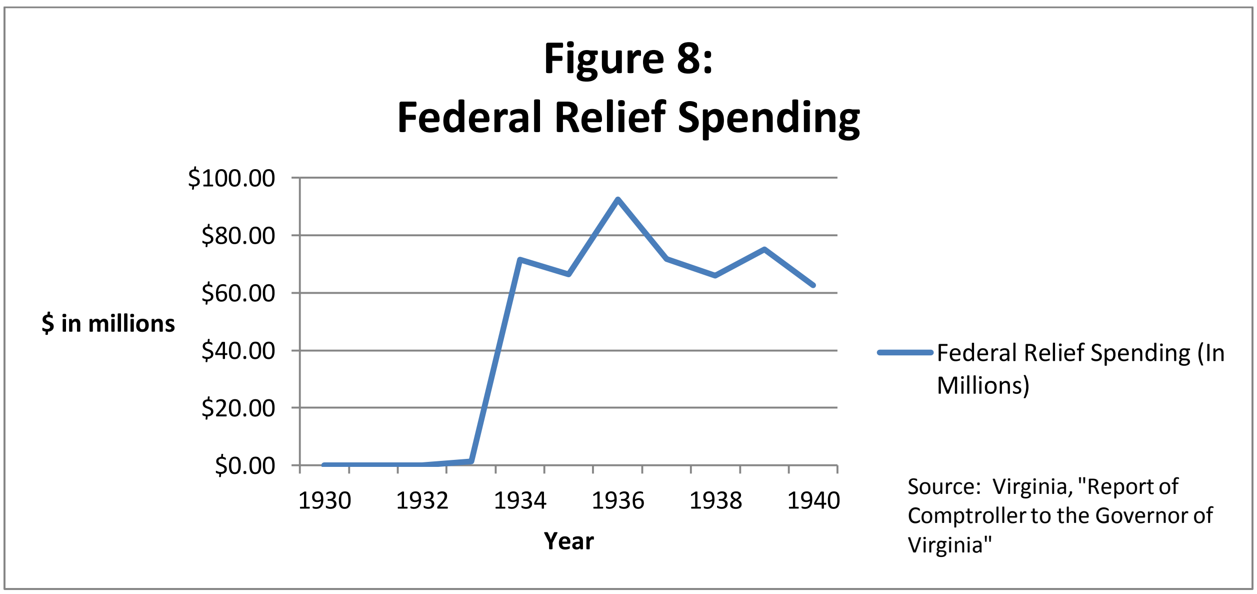
A series of categories were outlined by federal guidelines related to revenues that included income taxes, property taxes, sales taxes, etc. Within these categories were smaller sub-categories. An example of this is personal income tax or corporation income tax, which are subcategories of income tax. Some revenue items did not have enough explanation so these were put into the income tax category only, without being put into a sub-category. An example of this is the penalty enforced for filing taxes late. The person must pay a fine for filing late, so this is a revenue stream for the state but could not be categorized any more than just income tax. Some items could have been put into multiple categories, so I placed them in the most appropriate category and added a note explaining how that particular item could be put into another. Some permits like the fee for registering a boat are good examples of this because they may be called permits or miscellaneous revenues.

The same type of approach was taken for expenditures. A list of state expenditures were listed and I categorized them in the way the federal government did by using categories, sub-categories and even sub-sub-categories in some cases. The expenditures were outlined very well so categorization was simple for Virginia and few issues arose during the process. As was the case of revenues, some expenditures could have been categorized in multiple ways so I noted which and how else they could be categorized. An example of this is the pension fund set up for veterans of the Civil War. These pensions could be counted as pensions for state employees or miscellaneous expenditures.

After categorization was complete, I grouped the revenues and expenditures into their specific codes so I could input that data into the spreadsheet with the other states' data to be used for regression analysis. Each category, sub-category and sub-sub-category has its own code, so I added up the dollar amounts for each code and transferred that data into the aggregate spreadsheet. Once this was completed, regression analysis could be completed to compare states across America to each other.

Descriptive Statistics

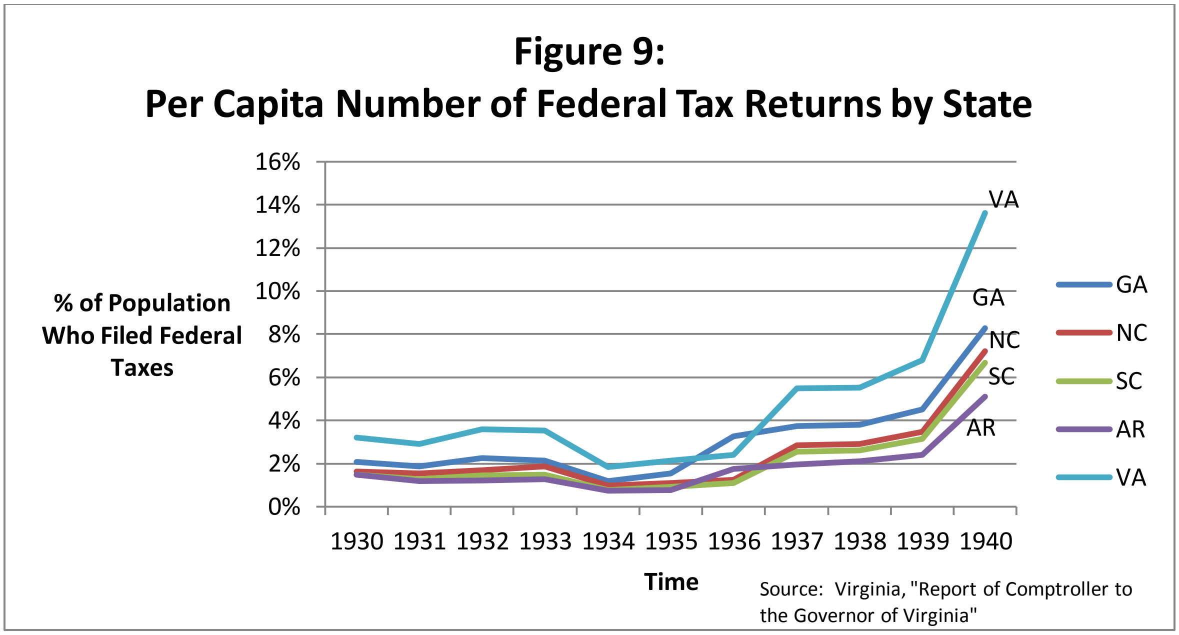
During the Great Depression, Virginia refused to spend state money as a way to stimulate the economy because of the fundamental reasoning that government could not improve the economy by spending. A strong financial position was seen by state leaders as the best way to ride out the depression. Even though nearly all state leaders including the governors during this period were Democrats, they all strongly disagreed with President Roosevelt's New Deal which included massive government spending. Many of the government programs required states to match the spending by the federal government in order to receive federal aid, but Virginia took the money without matching. The New Deal was passed in 1933 as a way to kick start the American economy through massive federal spending. Figure 8 shows Federal spending in Virginia during the 1930's:



The federal government encouraged states to raise taxes on the wealthy in order to spend on the poor, so the amount of tax revenues collected by the states were very important. Virginia added alcohol taxes after prohibition ended and gasoline taxes, but overall did very little to increase the amount of tax revenues. The increase in the amount of tax revenue is due to an economy that was getting stronger, not increases in income tax rates, although they did gain from raising taxes on gasoline and alcohol.

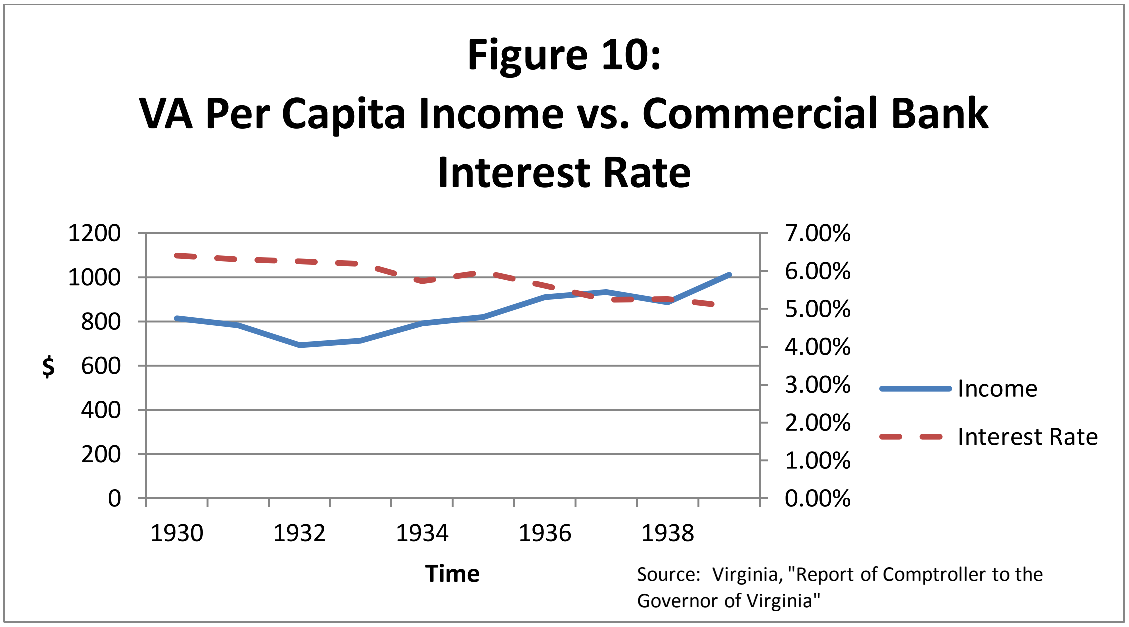
There was a big difference in tax revenues between the early 1930's and the end of the Great Depression in 1940. In fact, the amount of tax revenue more than doubled over this period. However, this is not attributed to income tax increases or any taxes for that matter. The increase in tax revenues is attributed to an economy slowly getting better which results in more sales tax revenues, property tax revenues, etc. Property taxes alone grew by $12 million to $14 million in 1935 and continued rising throughout the rest of the decade. The heart of the depression in the early 1930's had the least amount of tax revenues for the state of Virginia, but those slowly increased as the economy slowly grew.

During the 1930's, very few people made enough money to pay any federal taxes, meaning those who actually did were paying high amounts. In other words, the number of people paying taxes represents how many "rich" people there are within a state. The following graph represents the per capita amount of people within Virginia and the surrounding states that actually paid federal taxes:



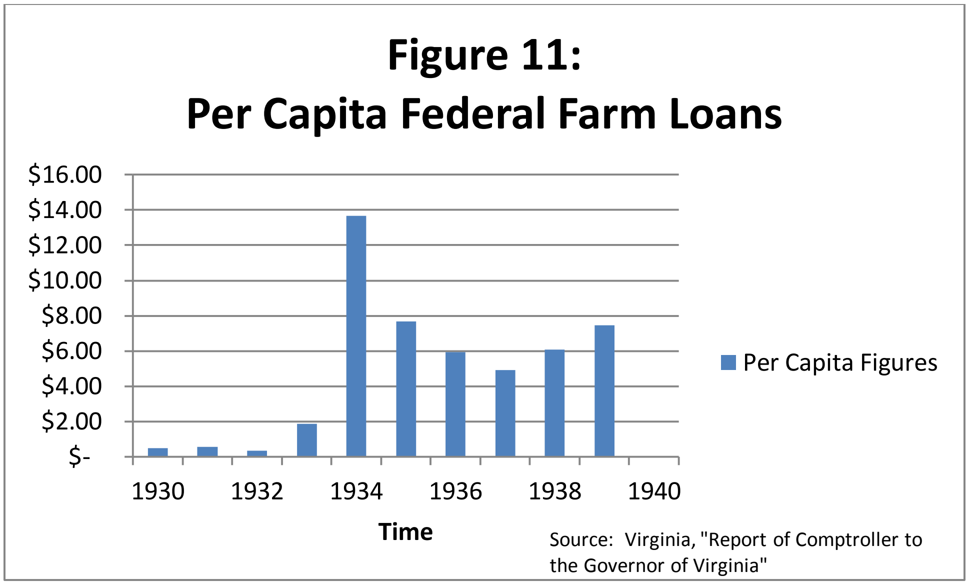
Virginia had the most people per capita paying federal taxes throughout the decade besides a couple years during the middle of the depression.

One of the variables that I will discuss later in this paper through a regression analysis is how the commercial bank interest rate affected state tax revenues. The interest rate is important because the economy grows when people take out loans to start business, buy farming equipment, etc. Comparing changes in the interest rate to the changes in income can help us understand the relationship between these two variables. The graph of the two variables is shown below.



The graph shows that as nominal interest rates fell over the course of the decade, income levels for Virginian families started growing. The nominal interest rate fell by about 1.5% during the Great Depression, and income levels grew about 25%. Not all of the growth in income is attributed to reducing the interest rates, but lower rates mean people have the opportunity to take out loans and start businesses, thus raising income levels.

One of the federal relief programs provided loans to farmers to help them avoid farm foreclosures and bankruptcy. These programs were especially helpful to Virginian farmers because a large part of the state was hit by the Great Drought of 1930, and this was still a mostly agrarian society during this period. Figure 11 shows how much the federal government spent on farm loans during the Great Depression.



Most spending on these loans came during a spike in 1934. This makes sense because the New Deal was passed during 1933, but it took time for programs such as this one to develop and be put into effect. Spending in 1934 on federal farm loans peaked at almost $35 million and average about $15 to $20 million in years thereafter.

The Great Depression had a big impact on every state in America, but because Virginia was in a better financial position than most southern states at the beginning of the Depression, Virginians did not suffer as much as other southerners. Income levels fell in the early 1930's but picked up quickly in the years thereafter. The state itself, even with very low taxes, received more per capita revenues than comparable states in the South.

Regression Analysis

After data for Virginia was added into the panel dataset for other states, a regression analysis is performed to see how different variables affected conditions during the 1930's for a variety of states. I chose a set of variables to use as independent variables to see their effect on my dependent variable, per capita state revenues that do not include federal grants. The variables I chose to analyze are per capita revenue from 16 farm crops in 1967 dollars, per capita federal public work programs in 1967 dollars, the number of tax returns per capita, the commercial bank interest rate, and per capita federal tax revenues in 1967 dollars. I wanted to compare these variables to per capita state revenues to see how changes in these variables affect how much revenue a state collected. When determining if the results are statistically significant, I used the 95% confidence level, or a t-value of 1.96.

By changing variables like the number of tax returns to per capita figures, I can see how these numbers translate from state to state. A large state like Virginia will obviously have more people paying taxes than a small state like Delaware, so using per capita figures can tell me which state has a higher percentage of rich citizens. Raw data on my five independent variables and the real per capita income level is listed below:

Variables	Observations	Mean	Std. Dev.
Per capita tax returns	531	0.06926	0.061
Per capita public works by Federal Government	531	100.199	76.372
Per capita tax revenue for Federal Government	531	1058.524	408.732

Per capita revenues from 16 crops	531	21.073	37.087
Commercial bank interest Rate	483	6.016	1.478
Estimated real per capita state income	531	1058.5	408.732

I ran four regressions adding additional variables and the results are in Table 1. By doing this I can see the effects of adding that one variable instead of adding everything together at once. The first regression involved real per capita state revenues as a function of per capita tax returns. The second regression incorporated five more independent variables. The next regression was just like the previous, except estimated real per capita state income was added as another independent variable. The final regression I ran had all the independent variables including real per capita state income in addition to fixed effects states and years. By including these state fixed effects, I am holding constant factors that did not change in that state but differed across other states. By including the year fixed effects, I am holding constant the factors that did not change during that year but differed across other years.

Per Capita Number of Tax Returns

The number of per capita tax returns is important because few people actually paid taxes during this period, meaning those who did were wealthy individuals. My hypothesis is that per capita state revenues will increase substantially when per capita tax returns increase.

The regression with just per capita tax returns in Column 1 of Table 1 shows that this variable had a coefficient of 309.9312 and a t-value of 6.01. An increase in tax returns per capita of 1 percent (which is measured as 0.01 in the data) would increase state revenue by $3.10. The resulting t-value shows that this number is statistically significant. However, the results were different when including fixed effects. When including all variables and fixed effects, the coefficient in Column 4 rose to 359.624 but the t-value fell to 1.35. This means that this variable is not considered statistically significant in the 95% confidence level. This suggests that the coefficient for tax returns was strongly correlated with other variables in the regression.

Per Capita Federal Public Work Programs

Federal public works programs were designed to incentivize state governments to spend money to match the federal spending. Most of the federal programs would only give money to a state if they matched that amount as well. However, many states, including Virginia failed to match the federal spending but still received federal grant money. In fact, some states actually reduced spending because they knew the federal government would spend money anyways, so the states saw this as free money more so than supplemental aid.

I was interested in this variable because the federal government expected to see state collect more revenues to fund the state's part of the highway program. If state revenues increase by a substantial amount due to federal programs, the federal government would see this as a reason to continue using deficit spending during economic depressions. After running the regression, I found that for every dollar spent per capita on federal highways, per capita state revenues increased by $1.04 when I include per capita income levels. This has a t-value of 3.74 and thus is statistically significant and shows a larger increase in state revenues compared to the federal spending for public work programs. After including the fixed effects, both the coefficient and the t-value dropped to 0.07 and 0.09 respectively. These results are not statistically significant. This variable is also highly correlated with other variables in the regression.

Per Capita Revenue from 16 Crops

The next variable I analyzed was the per capita revenue from 16 crops in 1967 dollars. This was important because farmers were a very significant part of the Virginia economy during the 1930's. The Great Drought of 1930 had a significant impact on the southern part of the state which is more rural and agrarian focused. Farmers were defaulting on loans and sought aid from the state but did not receive it. If revenues for farmers were increasing, I expect to see per capita state revenues increase as well.

The regression analysis in Column 3 of Table 1 shows that there is no statistical significant relationship between crop revenues and tax revenue after holding per capita income constant. This variable had a coefficient of 0.0070 and a t-value of 0.12. This means that for every increase of $1 in per capita revenue from the 16 crops, the increase in per capita state revenue is negligible. With fixed effects included, Column 4 of Table 1 shows that this variable has a coefficient of -0.3783 and a t-value of -2.05. This negative relationship between crop revenues and tax revenue means that for every of $1 in per capita revenue from the 16 crops results in a loss of more than $2 in tax revenues. This result is statistically significant.

Commercial Interest Rate

The fourth variable I analyzed was the commercial bank interest rate during the 1930's to see how these changed affected state revenues. I would expect to see state revenues *increase* when the interest rate *decreases.* Borrowing money becomes cheaper with a lower interest rate, so citizens and businesses could borrow money to start new ventures with cheaper money. With a greater number of business ventures being started, the economy is able to grow.

My hypothesis cannot be confirmed because there is no statistical significance when running this regression. The coefficient for this variable was -0.5167 with a t-value of -0.19. This means that for every increase in the interest rate of 1%, per capita state revenues decreased by about $0.50. However, these results are not conclusive. For the regression with the fixed effects included, this variable has a coefficient of -1.08 and a t-value of -0.32. Although this result is not statistically significant, it suggests a negative relationship between the commercial interest rate and state tax revenue.

Per Capita Federal Tax Revenues

I also included total per capita federal tax revenues in the regressions. I chose this variable because I wanted to see how state revenues compare to federal tax revenues. This variable has significant implications because the federal government expects state revenues to increase, but an increase in federal taxes might hurt states in this matter. My hypothesis is that per capita state revenues will decrease when federal per capita taxes are increased.

After running this regression, I found once again no statistically significant effect. When holding real per capita income and the other independent variables constant, this variable has a coefficient of 0.07 and a t-value of 0.75. For every increase in per capita federal tax revenues, per capita state revenues increase by an insignificantly small amount. When holding the fixed effects constant, this variable has a coefficient of 0.024 and a t-value of 0.09. There is not a significant relationship between federal tax revenue and state tax revenue.

Per Capita Income

Per capita income was also included in the regression. I included it to analyze how changes in per capita income change the amount of tax revenue states receive. My hypothesis is that there will be a positive relationship between per capita income and state tax revenue.

Neither of the regressions which included per capita income showed a statistically significant coefficient. Holding the independent variables constant in Column 3 of Table 1, the per capita income variable has a coefficient of -0.0035 and a t-value of -0.21. When including the fixed effects, the coefficient grew to 0.0239 with a t-value of 0.33, but was still statistically insignificant.

Table 1

Regressions from Regressions of Real Per Capita Tax Receipts on Various Correlates (t-statistics in parentheses)

Variables	(1) Per capita state revenues and per capita # tax returns	(2) All 5 independent variables	(3) All 5 independent variables and real per capita state income	(4) All variables including fixed effects
Per capita tax returns (531 obs)	309.9312 (6.01)	245.7851 (2.5)	263.6966 (2.02)	359.624 (1.35)
Per capita public works by Federal Government (531 obs)		1.0538 (3.83)	1.0449 (3.74)	0.0701 (0.09)
Per capita revenues from 16 crops		0.0107 (0.19)	0.0070 (0.12)	-0.3783 (-2.05)
Commercial bank interest Rate (483 obs)		-0.2608 (-0.11)	-0.5167 (-0.19)	-1.0776 (-0.32)

Per capita tax revenue for Federal Government (531 obs)		0.0705 (0.76)	0.0697 (0.75)	0.0241 (0.09)
Estimated real per capita state income (531 obs)			-0.0035 (-0.21)	0.0239 (0.33)

Conclusion

Virginia politics was dominated by Harry Byrd in the 1920s and 1930s. Byrd was governor of the state until 1930 before becoming a U.S. Senator in 1933. Even after his departure from office, Byrd led what was called the Byrd Organization that controlled the governorship and legislature for the whole decade. Byrd believed in small, limited government that centered on balanced budgets. Natural disasters hurt the Virginian economy just as much as the stock market crash. Farmers relied on federal loan programs that kept them out of bankruptcy. The Great Drought had a significant effect on Virginian farmers in the southern part of the state. December snowfalls finally ended the yearlong drought, but the fiscal conservatism policies of the Byrd Organization could have helped famers before the drought ended.

Governors Pollard, Peery, and Price were steadily more progressive by raising certain taxes and increasing spending for specific projects. The most important tax increase was for alcohol production, sale, and consumption. Virginia passed legislation that taxed alcohol very quickly after prohibition ended in 1933. Gasoline taxes also were an important revenue stream for the state. The revenue generated from these taxes was spent on improving the highway system and establishing the ABC Board. Highways were in rough shape and even caused tourists to avoid the state altogether, so state sponsored construction projects partnered with the federal government to vastly improve the road system. The ABC received a large budget of over

$12 million to regulate the new alcohol industry. Virginia spent large amounts of money to make sure taxes were collected properly.

The regression analysis I ran focused on five independent variables and their relationship to per capita state tax revenue. The variable I focused on was per capita tax returns because I thought an increase in the number of per capita tax returns would increase the tax revenue for states. While a simpler regression without fixed effects for states and time showed a statistically significant relationship, this relationship evaporated once fixed effects were included. A variable that did show a statistically significant relationship with fixed effects included is the per capita revenue generated from 16 crops. This variable had a negative relationship, meaning an increase in crop revenue actually reduced the amount of state tax revenue.

Virginia weathered the Great Depression because of the economic shape the state was in prior to the depression. Higher per capita income levels throughout the decade kept the state in a better economic situation than surrounding states. When compared to other Southern states like Georgia, Arkansas, South Carolina, and North Carolina Virginia also had a greater number of people per capita that filed tax returns. Without this strong economic position before the depression began, Virginia would have had a much tougher time dealing with the Great Depression.

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