FIGHTING THE NEW DEAL: GEORGIA'S STRUGGLE AGAINST FEDERAL AID DURING THE GREAT DEPRESSION

By

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Abstract

This paper examines Georgia during the Great Depression and New Deal. It specifically focuses on the years of 1929 to 1940. First, the paper looks at what Georgia did in response to the Great Depression and New Deal and how this response evolved as Georgia's political leadership changed. In analyzing this response, the paper found five significant trends that occurred in the state during this time: the adoption of the income tax, investment in state highways, the legalization of alcohol, reallocating the gasoline tax, and the expansion of the state's welfare program. The second part of the paper switches its focus to the specific economic trends in the state during this time by using regression analysis to study the relationship between per capita income and other factors. This paper used two types of regressions to study this relation: an Ordinary Least Squares (OLS) regression and an OLS regression with Fixed Effects. The purpose of the fixed effects regression is to account for any state specific or year specific shocks or events. The regression analysis found a statistically significant relationship between per capita income and the percentage of a state's population that submitted tax returns as well as the percentage that had automobile registrations.

Introduction

From 1929 to 1939, Georgia faced the pressure of the Great Depression and the New Deal. In its attempt to address the former, it soon came into conflict with the federal government over the latter. While the federal government wanted to offer relief to the states in response to the economic costs of the Depression, the governor of Georgia, Eugene Talmadge, refused in order to prevent the federal government from limiting his power in state politics. However, the benefits of federal relief became too enticing for Georgia to refuse, and Talmadge did accept some help, although not without fighting the federal government for more control of the relief. His successor, Eurith Rivers, cooperated with the federal government and expanded the relief Georgia offered to those affected by the Great Depression, expanding the role of the both the state and federal government in Georgia.

This paper will focus on Georgia during this time and how the state government responded to the Great Depression and New Deal. It will be divided into two parts. The first part will examine look at the laws and actions Georgia took in response to the Great Depression and New Deal. This part will examine how the state raised revenue during the period, such as establishing an income tax and legalizing liquor to tax, and what it spent its revenue on, like highways and its Welfare Department. This first section also analyzes the complicated relationship between the state and federal government during this time, a relationship that would change drastically between the two longest serving governors of the time, Eugene Talmadge and Eurith Rivers. While Talmadge fought viciously with the federal government to either control or stop federal funds, Rivers embraced their help. As a result, Georgia expanded its spending to a significant degree during River's time as governor, granting its Public Welfare department significantly more funding through programs such as an old age pension.

The second part of the paper will use regression analysis to examine the relationship between various economic factors in Georgia and other states during the Great Depression and New Deal. Using panel data from several states, including Georgia, between 1930 to 1940, an ordinary least squares regression was ran to analyze the dynamic between per capita income and several other economic factors, such as the per capita auto registrations in a state and the real per capita revenue from crops and livestock. To account for any heterogeneities in across states and for national shocks to the economy, a fixed effects regression was also used. These regressions found two variables that had a statistically significant effect on per capita income: the number of tax returns a state submitted and the number of cars registered in a state each year.

Income Tax

The income tax was one of the first measures adopted by Georgia to raise more revenue during the Great Depression. The first income tax law was passed during the 1929 legislative session, with several more from 1929 to 1939. Of these laws, the most significant was the 1931 Income Tax Law, which almost completely overhauled the rates of income taxation passed in the 1929 act. Although the state income tax was adopted and amended from the years of the Great Depression, the drive for its adoption lay in the decade prior, as Georgia's increasingly inefficient ad-valorem property tax contributed to larger state deficits and an inequitable tax burden. Proponents of improving efficiency in the state government and lowering the tax burden on low income Georgia farmers advocated for its adoption, while representatives of industrial groups opposed its passage. The former group would eventually win out and the state income tax became a steady source of income for the state by the 1939.

Prior to the passage of the income tax, Georgia had relied on an ad valorem tax, or valued added tax, on tangible assets like land since Reconstruction (Kelly, 1979, p. 63-64). However, this law became ineffective at acquiring revenue. Since the amount an individual paid was based on the value of their assets, individuals merely undervalued those assets to avoid higher taxes. Furthermore, non-tangible assets, such as stocks and bonds, were exempt from the tax. This policy favored wealthy Georgians by the beginning of the 20th century, since more of their wealth became nontangible. The state had recognized this as early as 1899 when the Georgia senate had appointed a commission to examine Georgia's tax revenues and tax collections. The commission recommended the adoption of an income tax, but this was ignored (Escarraz and Yirak, 1968). It would take until the 1920's for tax reform bills to be proposed seriously in the Georgia State Legislature.

Due to the state's skyrocketing deficit, the Georgia government began to consider the income tax. By 1929, the state had a deficit of over $4 million ("Drastic Revision in State Tax Plan Advocated", 1929). This composed about 13% of the state's receipts for those years. A commission held in 1929 recommended the adoption of an income tax. The commission found that the income tax would reduce inequities in the current system of taxation, giving relief to many poor farmers. However, the tax was opposed by several different groups. One group were elements of the Georgia government itself. A committee on taxation held in 1925 had concluded that the state of Georgia lacked enough information to better enforce the ad valorem tax (Escarraz and Yirak, 1968). For this reason, they concluded a more appropriate response would be to better enforce the tax. Furthermore, they felt the state needed more information to collect the income tax properly. However, they did acknowledge that the tax could be a necessary tool in the future. Even the supporters of the income tax had concerns about the law, specifically about how it would interact with the ad valorem tax. Some felt that the income tax should replace the ad valorem tax whereas others supported keeping both (Kelly, 1979, p. 90).

More aggressive opposition to the tax law came from groups representing industrialists across the state, such as the Georgia Manufacturer's Association. They argued that the income tax would make Georgia a less attractive state for businesses, discouraging industries just as income taxes had discouraged businesses in northern states. Opposition to the tax likely came from this group because the income tax would cover income from non-tangible assets, unlike the ad-valorem tax. It would also be harder to circumvent than the ad valorem tax, as an income tax would be based on the gross income an individual or corporation would receive rather than the value of their physical property. The income tax would then place a higher burden than the ad valorem on large business owners and investors in Georgia. Paul Doyal, the legislator who had introduced a 1927 income tax that failed, led the response to this criticism. He noted that the drop in northern manufacturing had been occurring for only the past decade when the income tax had been in effect for over a century in the region (Kelly, 1979, p. 113).

By 1929, the proponents of the income tax won, passing Georgia's first income tax. The tax was relatively simply and followed the model of the federal income tax closely. Individuals and corporations would pay a third of the amount they paid for the federal tax rate and submit the state income tax payment in conjunction with their federal income tax (G.A. Assemb. 1929). The ad valorem tax was also preserved despite the passage of the income tax law. However, by 1931, the ad valorem tax rate was to be reduced in an amount equal to the revenue gained from the income tax, limiting the increase in revenue the income tax would bring (Lutz, 1930, p. 72). For its first year, the tax brought in sizeable revenue for the state, with the Atlanta Constitution reporting slightly more than $500,000 in the first half of 1930 ("Taxes Net $1,356,996 Since the

First of the Year", 1930). Furthermore, the Georgia government took an active role in enforcing it, even offering to help determine how much they would have to pay under the tax in 1930, the first year it was in effect ("Officials to Assist Income Tax Payers", 1930). However, the law was not perfect. Due to both the wording of the law and how it was enacted, there were several exemptions for individual's incomes that limited the amount of revenue it raised. For example, the federal tax paid was ruled as deductible for the income covered under the state income tax for the years of 1929 and 1930 ("Income Tax Decision Adversed by Howard" 1932). Public sentiment began to hold that the state income was not as effective at gathering income as it could be. In response, the state commissioned an economist, Harley L. Lutz, to compile a report on the state of Georgia's income tax.

Lutz's report found that the income tax was inefficient due to how it followed the federal income tax too closely. Throughout his paper, he highlighted several areas for improvement. He first noted that state's use of the federal income law was inappropriate for the purpose of collecting revenue; the exemptions the federal income tax allowed were far too high for Georgia to collect significant amounts of revenue, as multiple groups of people were exempted. He also argued that the state needed to adopt a more gradual system of rising progressive tax rates instead of the one third of the federal tax rate the state had been following. Another flaw in the income tax he focused on was the distinction between earned and unearned income in the federal tax law, which he argued arbitrary and placed an excess burden on businesses and partnerships (Lutz, 1930 p. 58-72)

Not all criticisms were based on how the income tax followed the federal model. Lutz also criticized its system of appeals, in which the decision of the tax commissioner could be overturned by a committee of the comptroller-general, secretary of state, and attorney general. As none of these individuals had any experience in enforcing tax law, Lutz found the commission's effectiveness to be limited (Lutz, 1930 p.71).

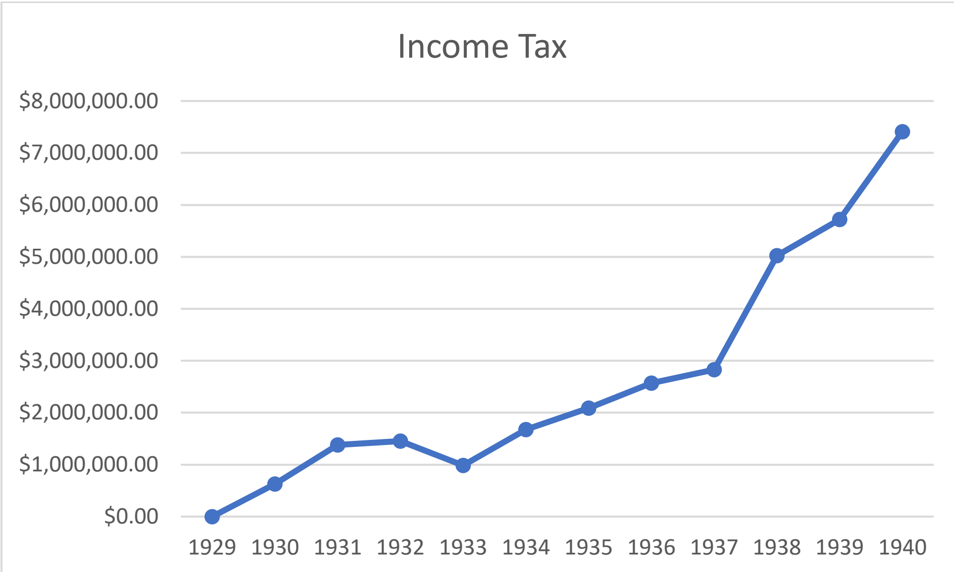
Lutz proposed several solutions to these problems. He suggested that the personal income tax rate be overhauled entirely. In this new system, the rate of income taxes would be moderate and graduated. The number of exemptions would be reduced and there would be no distinction between earned and unearned income, taxing the entire income an individual receives during the year. Furthermore, he advised that the system in which the tax commissioner answered to a committee of people inexperienced with tax administration be removed (Lutz, 1930 p.71). He finally recommended that the provision that ad valorem taxes be reduced in an amount equaling the total returns of the income tax be removed, since it would do nothing to address the state's deficit unless the income tax raised an unrealistically high amount of revenue.

Lutz's recommendations can be found in the revision to the income tax law that was eventually passed in 1931. The law simplified the tax code for individuals and better adapted it to Georgia. Specific minimum incomes for taxation were set out, ranging from $1,500 for individuals to $3,500 for couples living together (G.A. Assemb. 1931). Deductions were capped at certain amounts depending on the size of the taxpayer's household's and only certain government employees were granted exemptions from the taxes. The rate of taxation was also adjusted to a more progressive but gradual rate. Up to the first $5,000 an individual made, they were taxed 1% on that $5,000. Up to the next $5,000, they were taxed 2% on that bracket. This progressive rate continued up to $25,000, where they would pay 5% on any income earned over that.

This new tax law was passed with a slew of other tax laws to raise revenue during the Great Depression. Afterwards, the law remained mostly unchanged, with only one major revision from 1929 to 1939. When the law was amended, there appears to be few objections to its passage. It seems after the controversy over its passage in 1929 and overhaul in 1931, the income tax either became normalized in Georgia or was overshadowed by the passage of other laws, such as the taxes on alcoholic beverages.

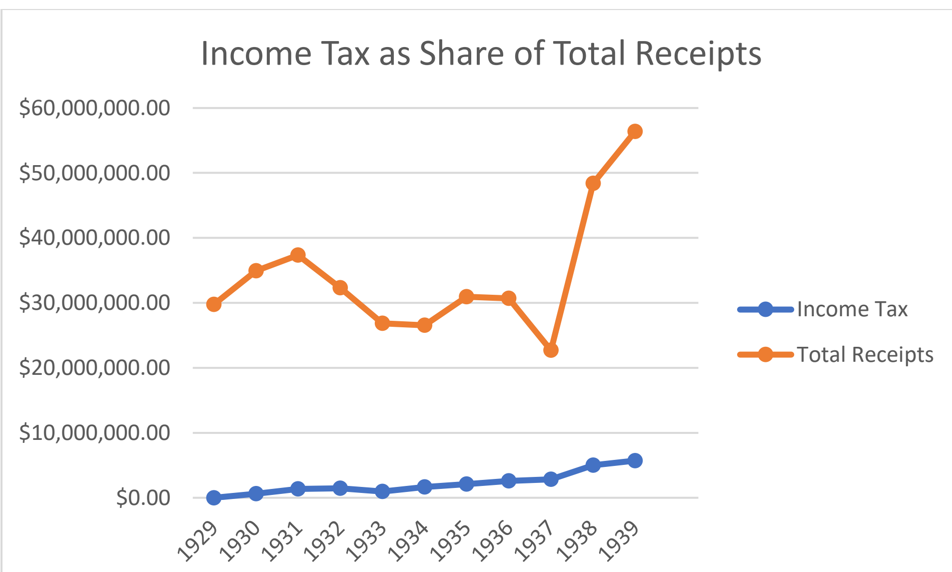
There were several minor amendments to the income tax law from 1931 to 1939. Most of the amendments redefined the terms used in the original tax laws, such as what a partnership was or made provided funds for the refunding of illegally collected taxes (G.A. Assemb. 1935). However, there was one last major revision in 1937. This law adjusted the rates of taxation and the brackets for taxation, making them less uniform based on the size of the individual's income. For example, income between $1,000 and $3,000 was taxed at a rate of 2% whereas income between $10,000 and $20,000 was taxed at a rate of 6% (G.A. Assemb. 1937).

Figure 1



Office of the Comptroller-General (1929 – 1940). *Report of the Comptroller-General of the State of Georgia*

Figure 2



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The growth in the income tax as a source of revenue can be seen in Figures 1 and 2. When the income tax was first collected in 1930, the revenue from it equaled roughly $630,000, relatively small compared to the state's total receipts of around $30 million . After the passage of the new revised income tax law in 1931, growth slowed and even dropped in 1933. However, the years between 1933 and 1937 saw a steady rate of growth, with returns from the income tax in 1937 equaling five times its amount in 1930. This growth continued despite the significant drop in total receipts seen from 1936 to 1937, indicating that the income tax provided a steady source of revenue for the state, even during times of economic slowdown. As a total share of the state's receipts, the income tax comprised about 10% by 1939, even with the massive growth in the state's revenue.

The income tax marked an attempt by Georgia to move its revenue collection in a more equitable fashion that also addressed the state deficit. Although it was not passed in direct response to the Great Depression, its passage would provide the state with a solid source of income during a time when its expenditures would skyrocket. However, the tax would not prove to be as controversial as later responses to the Great Depression, potentially because it was implemented at the state level, not at the federal level.

Highways

During the New Deal and Great Depression, highway building in Georgia would come to be one of the most prominent points of contention between the federal, local and state governments. Funded by a combination of bonds, taxes, and federal aid, highway construction touched on several recurring trends throughout the New Deal. These trends would include the state's politicians desire to appease the local organizations that provided them votes to the push and pull between the state and federal government over the power of the latter in disbursing the funds for highways building. From 1929 to 1939, the fight over highway funding can be grouped into three periods: 1929 to 1933, 1933 to 1937, and 1937 to 1939. Each period was distinct. In the first, the state government attempted to balance funding for the Highway Board between taxes, bonds, and federal funding. The second was marked by bitter fighting between the State Highway Board, Governor Eugene Talmadge, and the Federal government. The final period would see the new governor, Eurith Rivers, embrace the federal aid and push the state legislature to expand the funding for highways.

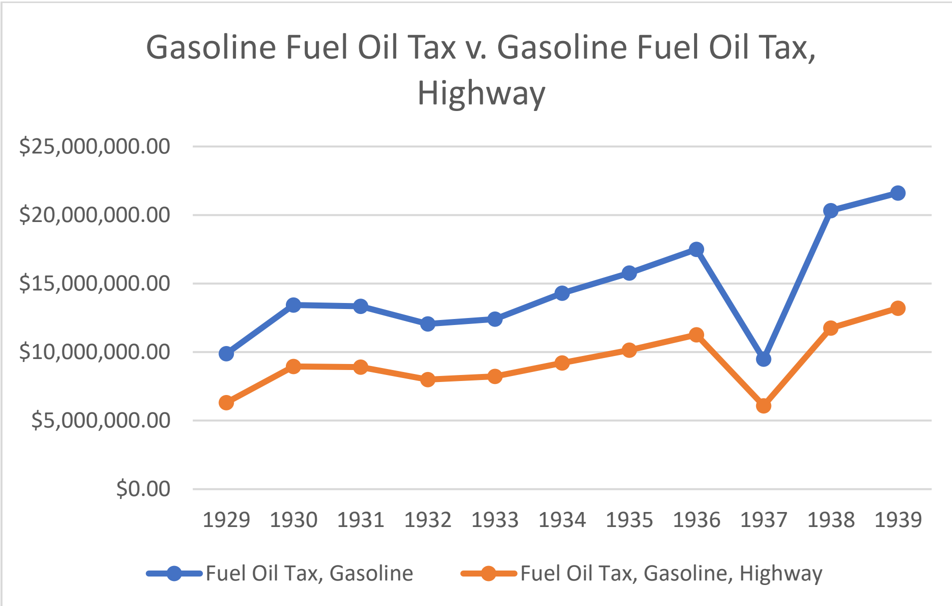
The construction of highways in Georgia played a critical economic and political role. Since most of the state was rural in the 20s and 30s, individuals had to use the state's roads regularly to travel for both work and personal reasons. Georgia's roads had become infamous in the nation for their low quality, being poorly or sometimes never paved (Kelly 1979 p. 69). In the 1920's, the Georgia state legislature established a Highway Commission to address this issue. The Highway Commission was funded by three sources: gasoline taxes, bonds, and federal funds. The federal funds would match certain construction programs up to 50% (Kelly 1979 p. 153). However, the funding would be contingent on the federal government's approval. This caused conflict with the Governor's office during the tenure of Eugene Talmadge. Furthermore, raising either the bonds and gasoline taxes proved to be controversial in Georgia for the following decade, leading to further clashes with the federal government. Regardless, the Highway Commission became one of the most politically influential institutions in the state. It doled out contracts for the construction of roads and highways throughout the state, making it very popular for politicians who wanted a road built in their home county. Georgia's county unit system of voting made the Highway Commission even more popular. In the county unit system, each county was allocated votes based on their size. Smaller counties were given a disproportionately high number of votes compared to larger counties. Candidates could win a county's votes by winning the election in the county. This system had two effects: rural counties became far more favored in elections and the "courthouse gangs" became very influential in elections. "Courthouse gangs" were local prominent individuals who could guarantee the votes to carry a county (Anderson 1976 p.16 - 17). Maintaining favor with them was critical to winning statewide elections. Contracts for road and highway construction would often be handed out as rewards to these individuals in order to maintain their support. Highway construction would then become both a political and economic tool during this period, a means to develop Georgia's economy and solidify one's political support in the counties.

From 1929 to 1932, Georgia faced the challenge of funding its highway construction. In 1929, the Highway Commission was $1.7 million in debt due to the former highway commissioner allowing construction of roads for the which institution could not pay. As a result, the federal government threatened to withhold its matching funding until the debt was paid (Kelly 1979 p. 112). Due to the fluctuations in the financial markets that would eventually lead to the Crash of 1929 and Great Depression, the state government was reluctant to pay off the debt with bonds. They opted to raise the gasoline tax by 6 cents per gallon, with 4 cents per gallon going to the state highway fund (G.A. Assemb. 1929). While this did address the debt issue at the state level for the time being, the onset of the Great Depression would worsen the matter at the local level. Lacking the funds of both the state and federal governments, local governments funded their road construction with bonds. However, the Depression reduced their tax revenue, making it harder for them to pay off their debts (Kelly 1979 p. 112).

Governor Richard Russell attempted to address these issues during his tenure in office from 1931 to 1933. Faced with the Great Depression, he used the power of the state and federal government to accomplish his goals while promising reform of the state government. He pushed a law that allowed the state government to assume all the county debts for road construction. He also requested that the members of the Georgia congressional delegation set aside $200 million for highway construction, expanding the federal matching program. However, this was denied. Russell’s drive for reform also would not address the inefficiency and corruption present in the Highway Commission. This was especially notable considering a major aspect of his tenure was marked by reforming and reorganizing several departments of the state government to eliminate corruption and waste. That fact that he was unsuccessful spoke to the political influence the Highway Commission wielded (Kelly 1979 p. 152 – 155).

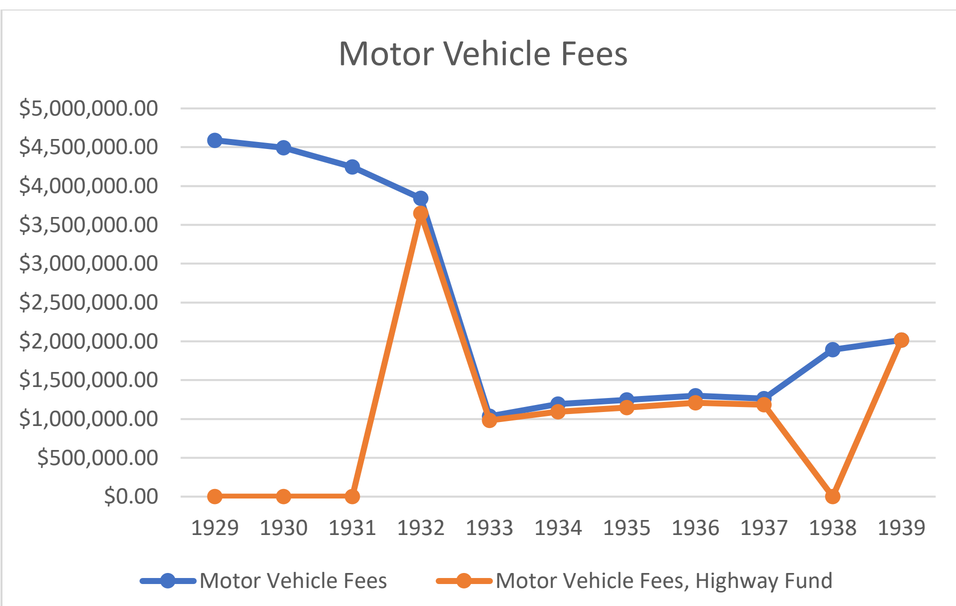
The importance of funding highway building during the late 20s and early 30s can be seen in the allocation of taxes to highway and road building. As seen in Figure 3, about two thirds of total gasoline fuel oil tax receipts were allocated towards the building of highways. This would be consistent with the 1929 gasoline tax that gave 4 of the six cents in the tax towards the building of highways. Examining the motor vehicle fees, shown in Figure 4, also indicate the significance of funding highways. For the years that motor vehicle fees were decomposed into what funds they were allocated to (Highway, General Fund, etc.), the majority was given towards the Highway Fund. This would indicate even in the years where such a breakdown was not provided, such as 1929 through 1931, a significant portion of the motor vehicle fees were funneled into the Highway Fund.

Figure 3



Office of the Comptroller-General (1929 – 1940). *Report of the Comptroller-General of the State of Georgia*

Figure 4



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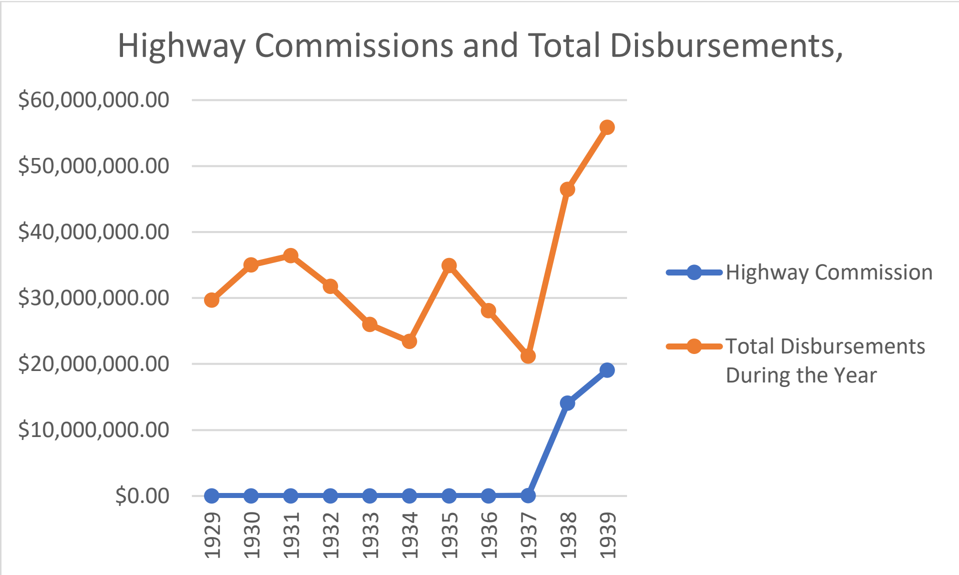
Eugene Talmadge became governor after Russell was elected Senator of Georgia. Unlike Russell, Talmadge took a hostile approach towards the Federal Government (Anderson 1977 p. 114 - 123). He also attempted to combat the influence of the Highway Commission. His first move would be to bring the Highway Department under his control by not approving their requests for funds unless several employees were fired. The situation would escalate to the point of Talmadge declaring martial law and taking control of the Highway Commission itself, accusing its members of corruption and incompetence. The board members of the Highway Commission sued Talmadge in response, forcing the two into a legal stalemate. The federal government also threatened to withhold funding until the issue was resolved. However, through shrewd legal maneuvering, Talmadge was able to place the Highway Commission under his control. A recent law required that only the state Attorney General could act as a lawyer for the Highway Commission. Since the Attorney General sided with Talmadge, he had the case dismissed and gave control of the Commission to the governor. Talmadge then replaced the members of the board with his own allies. With the Commission in check, he then secured the withheld federal funding for roads by agreeing to end martial law in Georgia and ensuring that federal funds would only be spent on roads (Anderson 1977 p. 88 – 94). Gaining control of the Highway Commission gave Talmadge the ability to continuously earn the support of the courthouse gangs during his tenure as governor.

Talmadge’s next fight was with the federal government itself. Throughout his time as governor, Talmadge was defined by his fight against the New Deal and federal government. Many times he rejected New Deal programs such as federal work relief t would help the state’s farmers and workers in Georgia. However, he was not always opposed to federal aid, and one of the most significant of New Deal funds he accepted was funding for the highways. Disbursing these funds through the Highway Commission could grant him significant influence in Georgia, earning him political leverage with local politicians and the courthouse gangs. The first round of funding he received however, required the funds to be spent almost immediately, preventing it from being used to buy favors with the courthouse gangs (Anderson 1977 p. 113 – 116). This outcome was not unintentional; the federal government had become concerned with the use of federal funds as a means of buying political favors in Georgia as well as the general organization of the state's Highway Commission ("Georgia Highway Fund" 1935). However, Talmadge struck back in 1935 by focusing on the inefficiency of the federal government, such as its construction of roads in areas that did not need them. He framed the issue as one of state's rights, in which the federal government was taking away the power from the state governments to decide where to build their roads. Talmadge won this confrontation, earning Georgia the right to approve all roads that were built by the federal government (Anderson 1977 p. 132 – 136). The conflict reflected both the political and economic importance of highways in Georgia during the New Deal; they were a means for politicians to maintain their influence, influence threatened by the expansion of federal funding that they did not control.

In the final period of highway development, 1937 to 1939, Georgia finally accepted federal aid without a fight. Since Talmadge was term limited, he could not run for re-election in 1937. Eurith D. Rivers took his place. Rivers' relationship with the New Deal was the opposite of Talmadge's: he embraced its funding and social programs, setting up agencies to coordinate between the federal and state government. Rivers immediately complied with the federal government's request for the reorganization of the Highway Commission and avoided any standoffs over federal funding for building roads and highways. He also removed all of Talmadge's supporters from the Highway Commission, ensuring his control over the institution (Herndon 1974 p. 174 – 176). The Highway Commission also ran into several scandals during his tenure. First, the Commission was accused of using its funds to reward Rivers' supporters. Although the Highway Commission had always been used as a means of rewarding supporters, River's expensive New Deal policies brought greater attention to how the Georgian government was spending its money. Several of River's opponents in the state legislature investigated the department to find friends and allies of his had been offered beneficial contracts. They used this revelation to prevent several of his policies from being passed. To avoid accusations that he spent the state's money irresponsibly, River's cut the budget of several departments, including Highway (Herndon 1974 268 – 274). The second controversy was Georgia's budget crisis in 1939. Due to the legislature's failure to pass enough taxes to fund River's social policies, River's was forced to divert funds from the Highway Commission to other departments, such as Education. In return, the Highway Commission received funding through bonds. (Herndon 1974 p. 287) Regardless, River's later years as governor were perceived as financially reckless, in no small part due to this incident.

Regardless of how River's financial policy was perceived by his opponents, a significant increase in funding for roads occurred during his time as governor. In 1939, the state government allocated nearly $3.5 million in grants to the counties to build their own roads and another $4.5 million in 1940, as seen in Figure 5. In 1938, the state began accounting its disbursements for road building under the Highway Department. This department included the bond fund for highways and the construction of rural roads in the state. Figure 6 shows the amount of disbursements sent through the Highway Department relative to the total disbursements conducted by Georgia. For the two years it was recorded, 1938 and 1939, the Highway Department's disbursements and the total disbursements both followed a trend of high growth in 1937 to 1938 and a slower but still steady rate in 1938 to 1939. However, as a fraction of the total disbursements, the Highway Department rose; in 1938, it composed roughly 26% of the total disbursements while in 1939, it equaled slightly over 30% of total disbursements.

Figure 6



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Throughout the decade of 1929 to 1939, the construction of highways impacted and was impacted by many facets of Georgian politics and economics. They were a tool for local and state politicians to consolidate their power. However, they also forced these politicians to answer to the national government when they spent federal funds. The fights over the highways was a part of the fight over what role Georgia should play in the New Deal, if it should maintain its independence or embrace the federal aid. Georgia eventually choose the latter when funding its highways but at the cost of financial debt and inefficiency.

Gasoline Tax

The gasoline tax in Georgia was its largest generator of revenue in the period 1929 to 1939. In the mostly rural state, automobiles were key to its economy, allowing farmers to transport their crops, such as cotton, to markets. Since all their cars were fueled by gasoline, the tax was a powerful tool to raise revenue for the state and counties. The gasoline tax would be used to fund three groups: The State Highway Board, the Georgia counties to build their own roads, and the School Equalization fund. The majority of the tax was allocated to the first group. The gasoline tax interacted with multiple aspects of Georgia government due to its diverse allocation, making it a lightning rod for debate for its amount and where it should be spent. It would also draw opposition from private groups, such as the Georgia State Automobile Association.

In 1929, Georgia's State Highway Board faced a fiscal crisis, with $1.7 million in debt to various contractors it had hired to build roads. In response, the federal government decided to withhold its funding for highway building until the debt had been paid. Since the state government itself was facing a deficit of about $4.5 million, it was not possible to allocate other funds within the state's budget to pay the debt off. The legislators facing the issue had two options: raise taxes or borrow the money through bonds. Borrowing money had been unpopular in the state in previous years and was even more unpopular with the financial markets becoming more unstable with the onset of the Great Depression (Kelly 1979 p. 112). As a result, they chose to raise taxes, specifically the gasoline tax, since it had funded road construction previously (Kelly 1979 p. 73).

There were several dimensions to the state legislature's discussion to raise the tax. First, there was the question of how much it should be raised, with proposals ranging from an increase of 5 or 6 cents per gallon. Second, they debated how the funds from the tax should be distributed, with some favoring that it should fund just the Highway Board, while others felt it should continue to aid the state's counties and School Equalization fund. Finally, any raise in the gasoline tax was opposed by several groups in the state, most prominent being those who represented the state's petroleum distributor. Gasoline corporations even threatened to sue if the law was passed ("Proposal To Hike Gasoline Tax Discussed at Length by Solons" 1929). However, with the federal courts upholding the rights of states to tax gasoline, this threat failed to stop the passage of the law ("Oil And Gasoline Taxes" 1929).

The speaker of the Georgia House of Representatives, Richard B. Russell , pushed through the gasoline tax, the Motor Fuel Tax of 1929 (Kelly 1979 p. 112). The law raised the gasoline tax from 4 cents per gallon to 6 cents per gallon. Of that, 4 cents would go to the highway fund and 1 cent each to the counties and School Equalization Fund. The increase had a noticeable impact on the state's revenue. Even before the tax was implemented, revenue from the gasoline tax rose in 1929, as car owners began to stockpile gasoline in preparation for the price rise. The tax was predicted to raise more $12 million in revenue after it was placed ("Gasoline Tax Exceeds $1,000,000 in August" 1929). By 1934, of Georgia's roughly $1.6 million increase in tax revenue, more than $600,000 came from the gasoline tax ("Georgia's Income Gains $1,677, 962 Over 1933" 1934). It also placed a considerable tax incidence on Georgia residents. In 1930, the American Motorists Association estimated the average Georgia citizen to have paid $35 in gasoline tax per year. It was only higher in three other states ("Average Gasoline Tax Per Car" 1930). The gasoline tax would both be praised and criticized as a tool for raising funds during the 30's in Georgia.

Figure 7

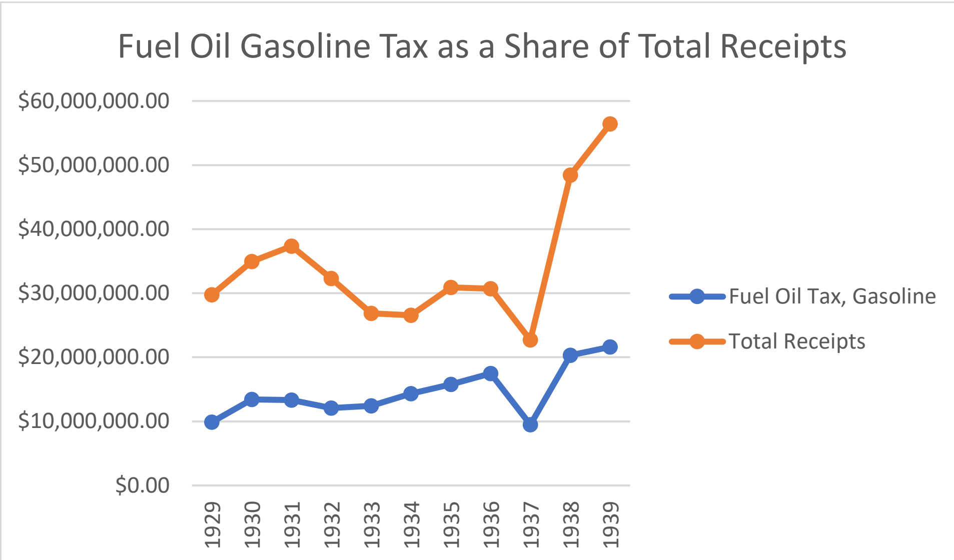

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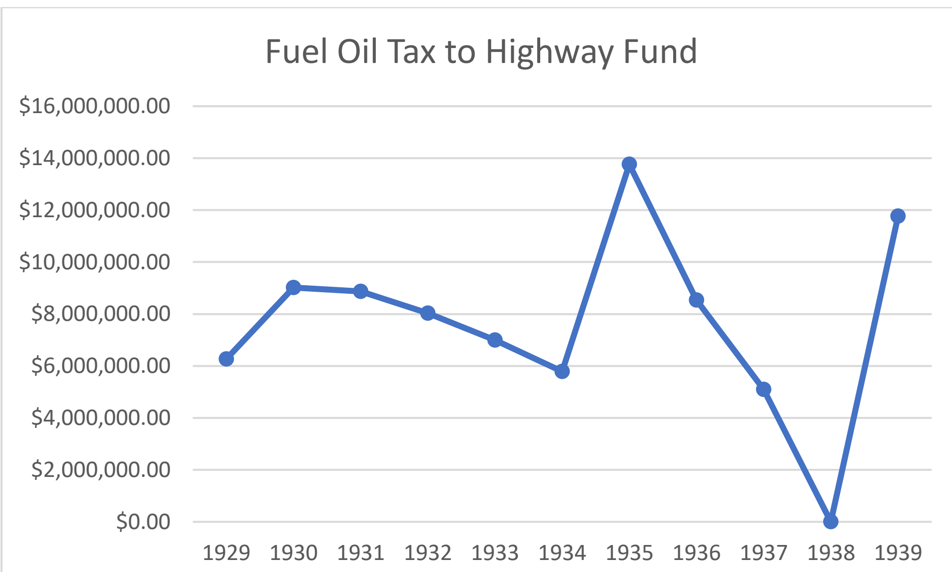
Figure 7 shows the size of the gasoline tax relative to the total receipts Georgia received between 1929 and 1939. From 1929 to 1937, the tax composed a significant portion of the state's total receipts, ranging between about a fourth to more than a half of the receipts. After the Motor Fuel Tax of 1929 was passed, the revenue from the tax rose in the first year, although it would slightly drop until 1932, after which it began a period of steady increase until the significant drop in revenue seen in 1937. This drop was followed by the largest increase in both gasoline tax receipts and total receipts. Although the gasoline tax did undergo as great a change total revenue did, it remained more than a third of total receipts.

One proposed use of gasoline taxes during the period of 1929 to 1939 was to divert its excess revenue from the Highway Fund to other programs in the state government. According to law, most of the revenue from the gasoline tax was to be allocated to the Highway Fund. As Figure 8 shows, the gasoline tax allocated to the Highway Fund between $5 and $14 million each year, excluding 1938, when none of the gasoline tax was given to the Highway Fund. The revenue from the gasoline tax made the Highway Fund one of the largest disbursements in the Georgia government. The Fund, however, rarely spent the entirety of its allocation on road building, only going to the amount of matching federal funds ("Petroleum Industries Committee

Scores Gasoline Tax Diversion" 1936). The excess funds in the Highway Fund from the tax became an attractive target. In 1935, the state legislature would appropriate $2 million from the Highway Fund to pay teacher's salaries, veteran's pensions, and unpaid appropriations from 1929 to 1931 (G.A. Assemb. 1935). When the state began to expand its social welfare programs in 1936, some social reformers began to call for further diversions through newspapers. These reformers, citing the poor state of Georgia's mental health institutions and hospitals, argued that the fund could be an easy solution to the state's failure to properly fund these programs. It could also accomplish this goal without forcing to the state to endanger its credit with loans and prevent future generations from having to pay for these expenditures. They also claimed that the policy would not risk any federal funding the state received for roads, considering that fund would only be using its excess funds ("A Commonsense Solution of Georgia's Worst Problems" 1937).

Figure 8



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The gasoline tax was also proposed as a fairer alternative to other taxes on motor transportation, such as the tag fee on cars. The tag fee acted as a flat tax for registering cars. Eugene Talmadge had made the price car tags one of the key slogans for his 1932 gubernatorial campaign, promising to lower the fee to $3 in order to reduce the burden of driving cars for working farmers in Georgia (Anderson 1976 p. 68). Royall J. Miller, a doctor in Atlanta, called for a further reduction to $1, with a $0.01 increase in the gasoline tax to offset the reduction in revenue. Miller's reasoning was that since the gasoline tax placed a greater cost on those who used Georgia roads more, they increase would place far more equal distribution of the cost on Georgia drivers (1933).

However, the gasoline tax was opposed by groups representing both the Georgia petroleum industry and automobile drivers. In 1931, the Georgia State Automobile Association published a warning authored by its federal organization, the American Automobile Association, criticizing the expansions of the gasoline tax and the federal, state, and county level. The warning argued that the gasoline tax had expanded beyond its intended purpose of building roads by giving counties and cities some of the tax's revenue. It also claimed that these expansions threatened the constitutionality of the gas tax, leading to its potential abolition. The Association called then for the tax to be limited to just road building ("Automobile Association Issues 'Warning' on Gas Tax Situation" 1931). In 1936, the Georgia Petroleum Association made a similar argument, claiming that too little of the gasoline tax was being spent on building highways and instead being directed towards other general uses. The group argued that this trend demonstrated that the gasoline tax could be easily reduced to avoid the waste ("Diversion of Gas Tax Denounced in Georgia" 1936). This argument would be one adopted by most opponents of the gasoline tax in Georgia; instead of outright abolishing the tax, they attempted to limit its growth and use to just the highways.

Organizations with an interest in keeping gasoline cheap were not the only ones who opposed the gasoline tax. The Atlanta Constitution criticized the six-cent tax in 1932. They argued that the price of the tax was far too heavy a burden on rural farmers, especially cotton farmers. Claiming that the price of the entire gasoline tax in the state equaled half the income from selling cotton, the Constitution accused the tax of being unfair towards rural farmers who needed gasoline to drive to towns and cities to sell their crops. This issue was further exacerbated, they claimed, by the Depression and the economic costs it had placed on the poor. The article called for a reduction in the gasoline tax to two cents and a temporary decrease in road building until the state economy was healthier (Jones 1932).

Another issue the gasoline tax faced was evasion, known as bootlegging. Several gasoline distributors began to circumvent the gasoline tax through various means. The most common was to purchase gasoline outside of the state, while claiming it was for nonexistent Georgian businesses. The gasoline would then be sold at a rate lower than the taxed one ("Bootleg Gasoline Tax Collections Sought by House" 1937). The issue had become nationally known, with several states holding a convention to discuss how the issue should be addressed, with Georgia among those invited ("War on Evasion of Gasoline Taxes" 1936). Opponents of expanding the gasoline tax, such as groups representing Georgia's petroleum industry, used this as evidence that legislators should focus more on enforcing the tax rather than expanding it. The legislature responded by passing the Motor Fuel Act of 1937. The law strengthened Georgia's ability to collect the gasoline tax and prevent distributors from engaging in bootlegging gasoline. Advocates of the law claimed it could earn the state an extra $1.5 million. Overall, the attempts to fight bootlegging were profitable for the state; in 1939, the Revenue Commissioner found that a concerted effort to reduce gasoline tax evasions had produced more than $850,000 in extra revenue for the state.

When Eurith Rivers was elected governor in 1936, he ran on a platform of expanding social programs in Georgia, unlike the policies of the previous governor, Eugene Talmadge, who had attempted to limit the role of both the state and federal government in the state. These social programs required a significant increase in the state budget in order to be funded. Despite this, River's generally opposed any expansions of the gasoline tax during his campaign and tenure as governor. During his campaign, River's advocated for either keeping the gasoline tax and building more roads or reducing and using federal funding to cover the difference. River's claimed he could accomplish this by incorporating more rural county roads into the state highway system, giving Georgia the ability to request more funds from the Federal government ("Rivers Urges Slice in Gasoline Taxes" 1936). This consolidation of state power at the expense of counties was a consistent trend throughout much of River's time as governor.

However, River's goal of strengthening the state government drew opposition from the county governments by 1937. Since the state had created an exemption for the homestead tax, the counties faced a substantial decrease in their revenue. To reduce their financial burden, River's published a report by the state legislature calling for the state to take over road building from the counties. Since this would significantly reduce the political influence of the counties, many opposed it and instead called for an increase in the gasoline tax to make up for the exemption. Eventually they would compromise with Rivers and accept a portion of the state's tax on intangible property (Herndon 1974 p. 212 - 213). Support for diverting the gasoline tax to the counties was not universal, however, among the counties and their leaders. At a convention for the Georgia Association of County Commissioners, the president of the association argued against diverting funding from the gasoline tax to the counties, viewing it as cheating tax payers to a degree ("Gas Tax Diversion Views Conflicting" 1939).

The gasoline tax did not undergo any radical changes in Georgia after 1929. However, there were several debates as to how it should be allocated and if it should be reduced. Furthermore, it became a temporary method for providing other parts of the Georgia government funding when it had defaulted its obligations, such as teacher salaries and veteran pensions.

Welfare Relief

During the Great Depression and onset of the New Deal, Georgia resisted most attempts to implement any sort of social welfare program. This opposition was led primarily by its governor from 1932 to 1936, Eugene Talmadge. Talmadge saw the welfare programs instituted by the federal government during this period, such as Social Security, as antithetical to Georgian values and cultures, capable of destroying the willingness of Georgians to work. There was also a political element to his opposition, as many welfare programs weakened his ability to handout political favors to local political officials. However, his successor, Eurith Rivers, took the exact opposite approach and implemented several policies to strengthen the State's welfare services, such as creating a Board of Public Welfare and implementing a universal old age pension system. Although these changes were initially popular, they placed an enormous financial burden on the state's finances.

Prior to River's reforms, welfare programs in Georgia were mostly nonexistent. Although a pension system did exist, it was reserved for veterans from the Civil War. However, even this system was not properly funded, as the Georgia legislature was forced to use excess revenue from the highway fund to pay for the veteran pension (Herndon 1974 p. 114). There was a State Welfare Board, but its funding and staffing were limited; an investigation in 1929 by the Department of Labor found the Board to be in need of more support for it to accomplish its role.

The investigation recommended the Board receive more funding, more authority on issues relating to welfare, and the ability to create local offices to handle training of social workers ("Support Is Urged for State Board of Public Welfare" 1929). Before 1937, the Board's budget never rose above $45,000. Furthermore, its role was to only help local counties administer welfare by advising them; the Board never directly distributed welfare relief. The counties themselves had minimal amounts of money to allocate towards revenue, since the State Constitution limited the amount of tax revenue that could assigned to such purposes to one fourth of the county's revenue from ad-valorem taxes. County implementation of welfare relief was either corrupt or insufficient. When funds were doled out, they were given to the politically connected rather than the needy. If a county maintained a program to help the indigent, such as a poor house, they were usually in horrible conditions (Herndon 1974 p. 191).

Despite the state of welfare programs in Georgia, there was little political impetus to reform them, even when the Great Depression put millions in poverty and the New Deal began offering relief from that poverty. The main cause of this resistance was the governor from 1932 to 1936, Eugene Talmadge. Despite running on a populist platform in 1932 and 1934 that claimed to champion the cause of the poor Georgia farmer, Talmadge was staunchly against any program of welfare relief (Anderson 1976 p. 80 – 81). When he first ran for governor in 1932, he saw the expansion of government welfare, such as that proposed by FDR, as merely making poor farmer's reliant on the government for aid (Anderson 1976 p. 66 – 67). Welfare relief ran counter to his image of the self-reliant Georgia farmer, the same farmer that had helped win the election for governor in 1932. There was also a racial element to his opposition of welfare. In his 1936 campaign for Senator, he argued that federal pensions had led to white individuals paying for the pensions of retired African Americans. He even claimed that the pension would cause the state to lose its cheap African American laborers (Logue 1989 p. 144).

The expansion of federal welfare programs also threatened his political power; instead of federal funds being granted directly to the state, they were managed by agencies independent of the state government. Talmadge would not be able to allocate funds to counties to win their votes in elections. Federal welfare grants were managed by the Georgia Relief Agency (GRA). In this system, the Agency approved all requests for federal grants from the counties, with the state matching every dollar of federal funding with three of their own. Talmadge had some influence in the process, nominating members of the GRA and signing the checks sent to the counties (Logue 1989 p. 129 – 130). The Georgia Relief Agency was headed by Gay Shepperson, a nonpartisan and experienced social worker. She and Talmadge quickly butted heads due to her refusal to allow the GRA become a political tool for Talmadge. Talmadge wanted to appoint his own supporters to GRA to ensure that he controlled distribution of relief, a wish that Shepperson did not follow. When he refused several of her suggestions for GRA employees in favor of individuals loyal to him, their conflict came to a head. Shepperson rejected all his nominees and Talmadge began to talk of not accepting any federal money. The GRA was placed completely under the control of the federal government in response and Talmadge lost any influence he had on federal welfare (Herndon 1974 p. 185).

Talmadge's opposition to social welfare programs at both the state and federal level was not shared by members of the Georgia State legislature. Eurith D. Rivers, the speaker of the Georgia House of Representatives, pushed for welfare relief programs such as an old age pension as well as greater cooperation with the federal government. He was joined by Roy V. Harris and Ellis Arnall, two influential voices in the House. In 1935, they organized a committee to be sent to meet with the federal government to investigate what New Deal programs Georgia could participate in. Talmadge disregarded the findings of the committee (Anderson 1979 p. 115 – 116). Nevertheless, the trio introduced several pieces of New Deal friendly legislation to the State House of Representatives, such as creating a new Board of Public Welfare and taxes to fund a pension system. All these laws either failed in the House or were vetoed by Talmadge. The failure of the pension system was especially significant, since it was quite popular amongst Georgians and Social Security had already been implemented at the federal level (Herndon 1974 p. 119).

Talmadge's opposition to welfare programs and the New Deal aided River's gubernatorial campaign in 1936. Roosevelt and the New Deal were popular in Georgia, especially amongst Georgian farmers who had received much needed relief from the programs. Talmadge's criticism of the New Deal and its welfare lead to an increasingly popular anti–Talmadge sentiment. River's used this sentiment in his campaign, accusing Talmadge of denying the state federal funding in welfare (Herndon 1974 p. 140). He also promised to push for programs that would provide relief to the poor, claiming that the government's role was to help the poor. These welfare programs he promoted would be called the "Little New Deal." Since an old age pension was the most popular of the social welfare programs, especially amongst the rural Georgians that initially given Talmadge the core of his support, Rivers associated himself with the promise of a state pension during his campaign (Herndon 1974 p.149 – 150). His strategy proved successful and Rivers won the election for Governor, taking 60% of the popular vote and more than 140 of the 159 counties in the state (Herndon 1974 p. 166).

Once he became governor, Rivers moved quickly to pass legislation favoring welfare relief and cooperation with the federal government. His former campaign manager Roy V. Harris was the Speaker of the House for the Georgia legislature and helped Rivers build support among the legislators to pass the legislation. With the legislature, Rivers created a State Housing Authority to build affordable housing units for residents of the state. He also recommended legislation that raised worker's compensation benefits and created a Department of Labor (Herndon 1974 p. 175 – 179). However, his most significant reform with regards to social welfare were the changes he made to the Board of Public Welfare. With the Welfare Reorganization Act of 1935, the Board of Public Welfare's power and authority were greatly increased; it was now responsible for the state's mental hospitals and schools for the blind, delinquent, deaf, and mentally challenged. Furthermore, it also took responsibility for distributing federal welfare funds, such as those for free lunch programs at schools. The effect of the Welfare Board's expanded responsibilities can be seen in Figures 9 and 10. Figure 9 shows funding given to the Board of Public Welfare itself, while Figure 10 shows the total funding that the department managed over the period, such as the training schools and the maintenance of mental health facilities. While the funding of the department itself fell between 1929 and 1939 despite the Great Depression, the total funds it managed fluctuated slightly but stayed around $1 million until the Little New Deal in 1937. After that Department of Public Welfare's funds jumped dramatically, more than doubling. This increase can mostly be attributed to extra funds the Board was given to renovate their facilities and the Milledgeville Hospital.

Figure 9

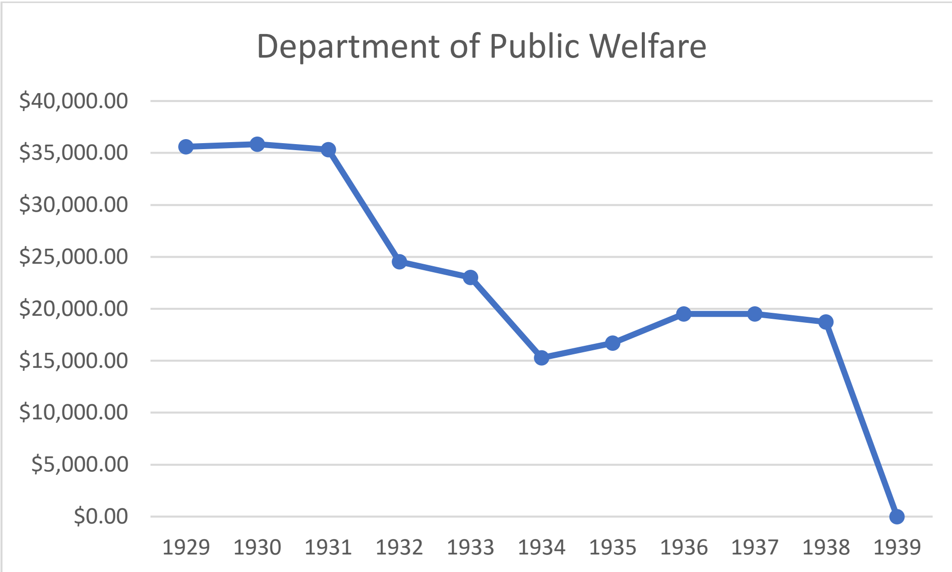

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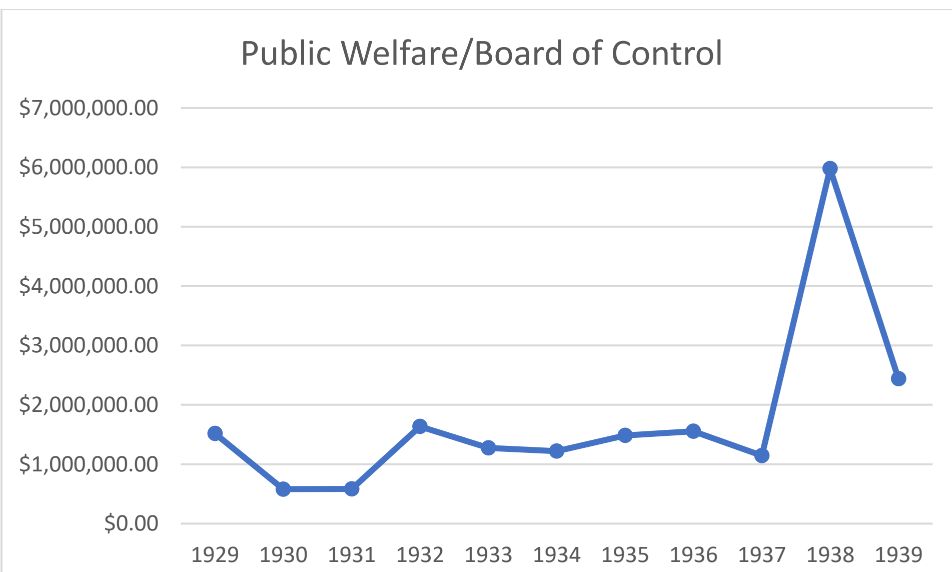
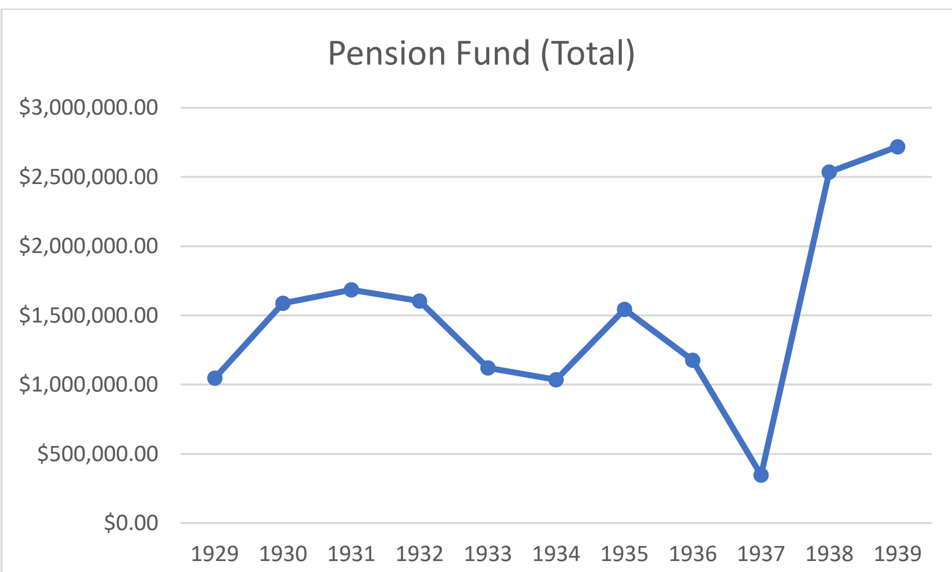
Figure 10



Office of the Comptroller-General (1929 – 1940). *Report of the Comptroller-General of the State of Georgia*

The act required individual counties to establish their own welfare boards to ensure that the entire state cooperated with both state and federal welfare programs. The Board also became responsible for working with the New Deal agencies such as the Works Project Administration and Civilian Conservation Core. This change came about because the federal government had begun to roll back direct aid from these agencies, instead requiring that state agencies work with them. An old age pension system was also established, fulfilling one of River's most prominent campaign promises (Herndon 1974 p. 185 – 186). This pension provided payments up to $30 a month to all non-incarcerated individuals above the age of 65 who did not have enough means to care for themselves (G.A. Assemb. 1937). Like the Department of Public Welfare, River's reforms increased the disbursements given to the Pension system by a significant amount. Since previously the state pension system had been reserved for Confederate veterans, the pension now covered a far wider range of recipients. As Figure 11 shows, the Pension Fund more than tripled between 1937 and 1938, slightly increasing more in 1939.

Figure 11



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Rivers passed this legislation quickly due to the overwhelming margin by which he won the election and the anti-Talmadge sentiment that had followed. However, this support did not last and as the cost of these new welfare programs became apparent, they soon attracted criticism. Some accused Rivers of giving out the welfare benefits such as the pension to supporters, although no evidence suggests that this assertion is true. Others claimed that the administration of the welfare programs was inefficient and costly. This argument would resurface when the cost of these programs forced a budget debate in Georgia later in Rivers' term as governor (Herndon 1974 p. 188 – 190).

As the state spent more to fund the "Little New Deal," it failed to find appropriate sources of revenue to support deficit these funds were creating. This issue was exacerbated by the tax exemptions that Rivers had pushed to aid the working class, such as the homestead exemptions tax. The repeal of these taxes reduced not only the revenue of the state, but also counties, limiting their power and ability to administer welfare programs (Herndon 1974 p. 209 - 210). A special session was called in late 1937 to devise a new tax system to help overcome this loss in revenue. The session accomplished several significant goals. The state agreed to the counties' demand for the state to take full control of administering Social Security and old age pensions, reducing the administrative load on the counties. They also passed several laws to raise revenue, such as legalizing liquor and reforming the state's tax collection system. However, no significant revenue raising tax, such as a sales tax or luxury tax, was passed, despite these measures being debated during the session. As a result, the cost of the Little New Deal was not offset by new revenue sources, the goal of the special session (Herndon 1974 p. 20).

By Rivers' second term, public opinion had begun to sway against the Little New Deal. Although the majority of Georgian's still supported it, there was a growing group who had criticized it as wasteful (Herndon 1974 p. 250). However, their criticisms argued for reform, not abolition, reflecting the enduring popularity of Rivers' social welfare programs. They claimed that the state welfare programs were merely corrupt and that if the waste was removed, the programs could continue to be funded without raising taxes. These opponents claimed the social welfare programs were ran in an inefficient manner, with more money going towards the bureaucracy running the welfare than individuals they were supposed to help. For example, critics of Rivers accused him of giving allies jobs in the administration of Social Security as favor. The state legislature formed the Economy Committee in 1939, which sought to investigate these claims of waste. When it examined the Board of Welfare, it recommended the firing of all social workers who were not native Georgians, a move that nearly lost the state federal funding.

Instead, they merely fired 24 of the departments staff. This apprehension towards the Welfare department indicated that the mindset of Talmadge was not gone; social welfare was seen by some as antithetical to Georgian beliefs and capable of breaking down the social, economic, and racial relationships of Georgia (Herndon 1974 p. 264 – 265).

However, these moves failed to cut back costs to a manageable level and the legislature failed to adjust its taxes and appropriations to properly fund its social welfare programs. The Department of Public Welfare was forced to fire a significant number of employees and many of those who remained took a pay cut. Several welfare programs the department administered, such as the mental health hospitals and old age pensions, were forced to remove individuals that they had served (Herndon 1974 p. 274). Despite these cuts, the welfare programs would stay, even when Talmadge became governor again in 1941.

By the end of 1939, those in favor of welfare relief in Georgia had succeeded in their goal of expanding the state's aid to the needy. The state had expanded its pension program. The Board of Public Welfare moved from an advisory role to directly working with both county and federal agencies to administer relief to the poor of Georgia. Although these programs would induce a budget crisis in the state that later resulted in their own cutback, they proved popular enough to avoid being removed entirely.

Alcohol Legalization

Georgia was one of the last states to end Prohibition in its boundaries, officially allowing the sale of alcohol in 1938. However, the debate over prohibition extended years back, with unsuccessful measures to end the practice in 1935 and 1937. Those fighting for the repeal of Prohibition at the state level had won some victories by legalizing wine and beer. In all of those cases, the Georgia legislature gave the question of legalization to the Georgia voters through a referendum. From 1929 to the legalization of alcohol, the debate on the issue inspired strong feelings on both sides. Proponents of Prohibition, composed mainly of the Women's Christian Temperance Movement (WCTU) and other religious groups, argued that it reduced drunkenness and promoted public safety. Those opposed to Prohibition responded by arguing that it had been largely ineffective at reducing drinking and in fact had made the state more dangerous by driving alcohol consumption and production underground. Furthermore, with the end of national prohibition in 1932, the revenue other states had received by taxing alcohol showed the potential for legalization as a source of funds. With Georgia's "Little New Deal" under Governor Ellis Arnall, the state needed revenue to fund its expansion of government and eventually used liquor to do so, legalizing the sale of alcoholic beverages and spirits in 1938.

Although Prohibition was enacted at the federal level in 1919, Georgia banned alcohol in 1908 ("Prohibition in Georgia" 1907). By 1929, although prohibition had been in effect for more than 20 years, the WCTU continued to vigorously support the law and ensure that it remained in effect. The organization had pushed for Prohibition throughout its history. Despite helping pass Prohibition, they did not end their political advocacy. They instead saw their role as one of reminding people of the evils of alcohol and the social ills, such as alcoholism and lawlessness. The Georgia branch of the organization was closely tied to the national organization, sending delegates to the national convention in 1929 ("Georgia Woman's Christian Temperance Union" 1929). Even outside of the WCTU, support for Prohibition in Georgia appeared to be strong. The Atlanta Constitution praised Atlanta and Georgia for its participation in a national contest on how to enforce Prohibition ("Georgia Has Faith in Prohibition" 1929). With the onset of the Great Depression, supporters of Prohibition even claimed that it had maintained lower rates of drinking among the poor and unemployed of Georgia's cities, even in time of hardship ("Liquor Found Small Factor in Relief Work" 1932).

However, support for the criminalization of alcohol was not unanimous. Many had been critical of the enforcement of Prohibition, arguing that it had been ineffective. Journalist Ronald Liggett released an investigation in 1930 claiming that Augusta was the "Wettest City in America." ("Georgia is Painted as 'Dripping Wet'" 1930) In this report, Liggett claimed that illegal moonshine could be bought at a rate of $2 a gallon and that the arrest rate for drunkenness in Atlanta had doubled since Prohibition, citing police records for arrests. This rise in arrests for intoxication were also associated with a general rise in crime, with arrests peaking at more than 37,000 in Atlanta alone by 1929. In 1932, just prior to the end of Prohibition, an opinion piece in the Atlanta Constitution written by local lawyer Francis Mackall called for the end of Prohibition, naming it an attack on liberties and preventing Georgia from adopting laws that would best suit its needs. In the same piece, however, the lawyer also argued that Prohibition should not be conflated with the repeal of the statewide banning of alcohol ("Eighteenth Amendment Should Not Be Confused with State Prohibition" 1932).

By 1933 national Prohibition was ended by FDR. However, in Georgia, the statewide prohibition law remained on the books. Alcohol at this point achieved a semi-legal status in Georgia. Several cities, including Atlanta, legalized the sale of 3.2% malt beverages. Alcohol was also allowed to be transported into the state from so called “wet” states, states where alcohol had been legalized, as long as it was not done so by known bootleggers (“Prohibition’s Demise to Mean No Celebration in Dry Atlanta” 1933). After this, however, the question of legalization would become increasingly debated in the state government. Governor Talmadge refused to allow for a special session in 1933 to outright legalize malt beverages in the whole state (Anderson 1977 p. 86). Legislators discussed several aspects of repeal, from whether it should be decided by the legislature or by referendum to if beer and other liquors should be legalized together or separately. Furthermore, there was a question of whether there was a referendum, should it be by the county unit vote, which favored the rural “dry” counties supporting Prohibition, or the popular vote, giving the urban counties in favor of legalization an advantage (“Georgia Solons Voice Various Ideas On Solution of Prohibition Issue” 1933).

By 1935 the legislature had resolved this debate by passing several laws to legalize alcohol through a referendum: the Malt Beverage Law, the Wine Making Referendum, and the Alcoholic Beverage Control Act of 1935. Each of these were then passed along to the state’s population to be voted on in a popular vote referendum. The Malt Beverage Law legalized the sale of alcoholic drinks made with fermented malt that did not have an alcoholic content greater than 6%. The law also placed a tax of $1.25 on each container of malt beverages not exceeding 31 gallons. The tax was to be allocated primarily to the school text book fund. The law also set out regulations defining who could make and sell the malt beverages and assigning different licenses for each group (G.A. Assemb. 1935). The Alcoholic Beverage Control Act of 1935 took a similar approach in its regulation of alcohol. However, it also required a 10% gross tax on the receipts of business that sold directly to consumers. It also gave local counties and municipalities the right to decide if they wanted alcohol to produced and stored in their limits in what would be known as the “Local Option.” (G.A. Assemb. 1935) The Wine Making Referendum was least restrictive of the three, granting anyone the right to ferment their grapes or other fruits, regardless of whether their county or municipality had legalized alcohol (G.A. Assemb. 1935). Those that produced it could also directly sell it to consumers, assuming their region had legalized it and they had received the necessary permits.

With these laws the question of alcohol legalization was decided by the 1935 referendum. Those in favor of statewide Prohibition consisted mainly of the WCTU and other religious groups, such as the Methodist and Baptist Churches. They opposed the legalization of any forms of alcohol, even malt beverages with a lower alcohol content (“Consolidated Forces for Prohibition Hold Meeting in Macon, Georgia” 1935). Those in favor of ending Prohibition coalesced to form the Georgia Association for the Local Option, backed by William T. Healey, an Atlantan businesswoman who had helped lead the repeal of Prohibition at the national level. The organization was led by the author of the legislation, Spencer Grayson, and argued that Prohibition had been a failure at both the state and federal level, allowing the sale of alcohol to continue untaxed throughout the state and depriving it of a vital source of revenue for its schools (“Georgia Repealists Concentrate Forces” 1935). The supporters of Prohibition countered that the costs of crime brought about by legalization would outweigh any extra revenue the policy could bring. Both sides campaigned heavily prior to the referendum. The Prohibition supporters worked with local organizations throughout the state while the legalization forces held a speaking tour and produced radio ads statewide (“Activity Increases in Both Sides in Prohibition Repeal” 1937).

The Wine Making and Malt Beverage laws passed the 1935 special election, while the Prohibition forces prevented the passage of the Alcoholic Beverage Control Act. However, they defeated it by a slim margin, especially compared to the other two laws. While the two that passed won by almost 10,000 votes, the Alcoholic Beverage and Control Act lost by less than 300 votes (Wilson, "Georgia's Official Register, 1933/35/37"). This divide could potentially be attributed to the semi-legal status malt beverages had held in Georgia; several cities did not prosecute their sale due to the fact that their alcohol content was considered low enough to not be a threat to the public (“Georgia Cities Prepare For End Of Prohibition” 1933). Legalization forces tried their hand again in 1937 with another Alcoholic Beverage and Control Act, but that lost as well at the referendum stage.

The Malt Beverage Tax provided a solid source of revenue to the state. As Figure 12 shows, the Malt Beverage Tax steadily rose from 1935 to 1937, hovering around $500,000 in revenue. After 1937, however, revenue from the tax more than doubled, reaching nearly $1.2 million in 1939. A significant portion of this revenue was allocated to the Department of

Education, which received funding from the previous year's revenue, seen in Figure 13. Funding from the Malt Beverage Tax more than tripled from the period of 1936 to 1939. The Wine Tax, on the other hand, provided a smaller amount of funding. Records of its collection were not kept until two year after wine was legalized and the sums collected were always a fraction of the Malt Beverage tax, as demonstrated in Figure 12.

Figure 12

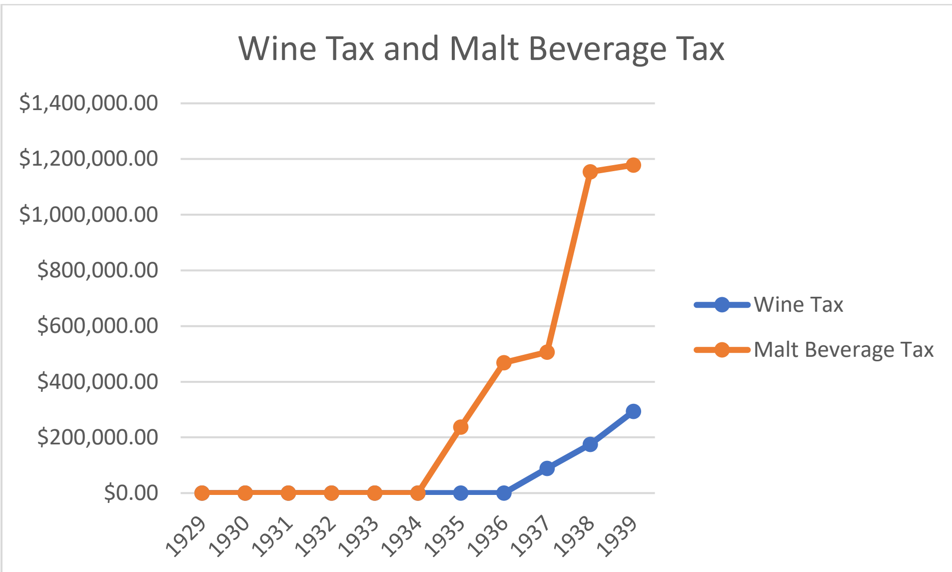

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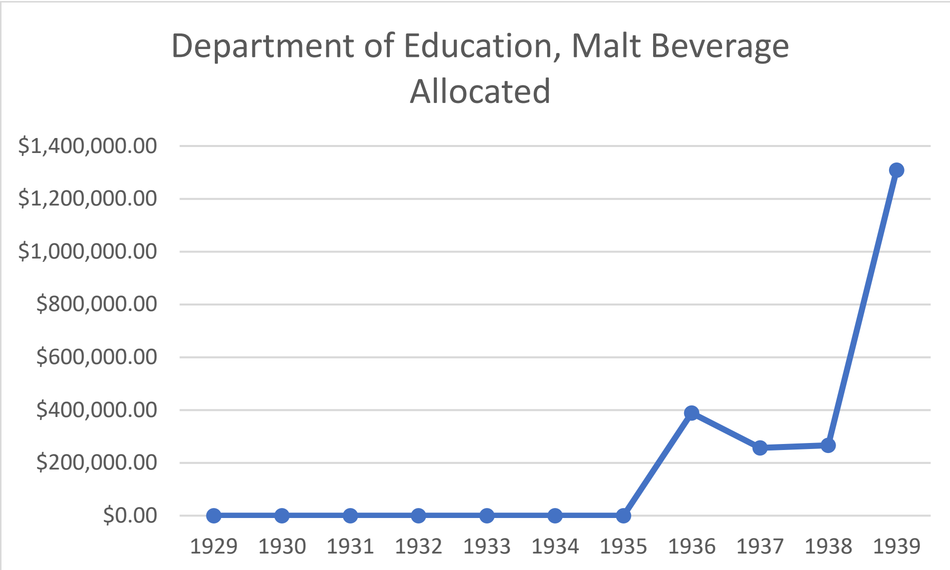
Figure 13



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Full legalization of alcohol of finally passed due to the state's need for revenue. By 1938, Eurith D. Rivers had been elected Governor. Unlike Eugene Talmadge who had fought the expansion of the state and federal government during the early years of the Depression, Rivers sought to enact policies that would greatly increase the size of the state government. These policies included creating a State Board of Welfare and providing free textbooks to students at Georgia's public schools. These policies raised the expenditures of the state government, often without an accompanying tax to finance the policy. In order to fund these expenditures, a new source of revenue for the state was necessary.

However, taxing alcohol was not Rivers' first choice. Since it had been defeated twice with a popular referendum by slim margins, the matter was controversial within the state legislature. Rivers instead attempted to pass policies that would inspire less division (Herndon 1974 p. 208). At first, he proposed a sales tax or gross income tax. However, each was controversial. The sales tax was considered regressive and placing a greater burden on poorer individuals, while the gross income tax would extend taxation from just profits to the revenue ("Here Is Text For Harris's Pleas For Taxing Of Liquor Sales" 1938). He did not support either method that strongly, ensuring their failure in the state legislature (Herndon 1974 p. 223). The

House Speaker, Roy V. Harris, was then able to push through the Alcoholic Liquor – Regulation and Tax law. In his campaign to end Prohibition, Harris reiterated many of the arguments in favor of ending Prohibition, such as its ability to raise tax revenue. His campaign was eventually successful, and Rivers signed the law in February of 1938 ("Rivers Signs Liquor Bill" 1938). The complete legalization of alcohol provided a modest amount of revenue. In its first year, the tax raised more than $1.5 million and almost $2 million by 1939, shown in Figure 14. Combining all revenue raised from taxing alcohol (wine, malt beverage, and liquor taxes), legalization raised the state roughly $3.5 million. The most dramatic increase in this revenue came during 1938, when alcohol and liquor were both legalized and taxed and when the malt beverage tax more than doubled in revenue. These taxes came in handy during these years as the state began to increase its disbursements and embrace the New Deal. However, their revenue would not be enough to address increasing costs the state faced by expanding its spending (Herndon 1974 p. 216). Although the state tried to implement other new taxes, these measures failed. The failure to find a sufficient source of funding allowed River's opponents to challenge his expansion of the New Deal in 1939.

Figure 14

Office of the Comptroller-General (1929 – 1940). *Report of the Comptroller-General of the State of Georgia*

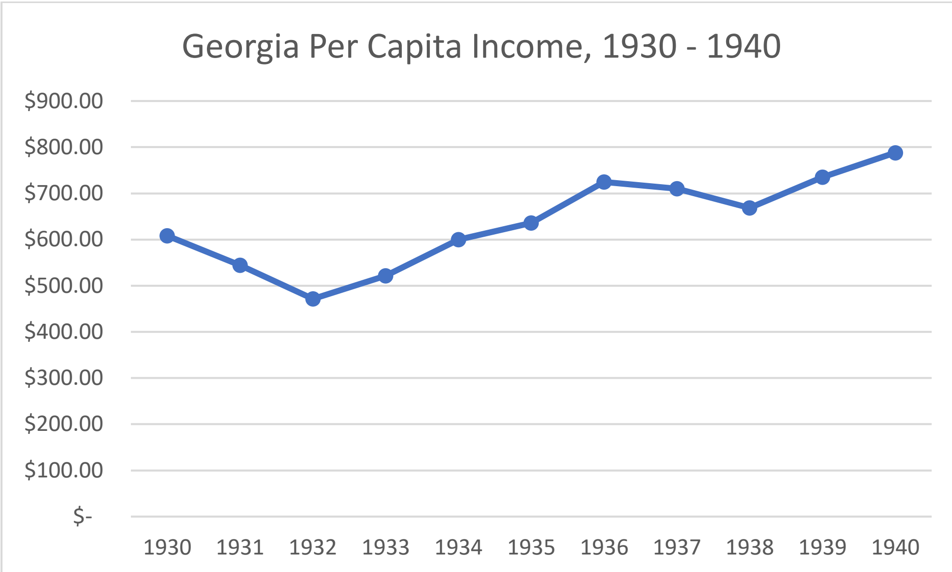
Figure 15

Office of the Comptroller-General (1929 – 1940). *Report of the Comptroller-General of the State of Georgia*

Regression Analysis

The regression analysis of this paper shifts the focus away from the laws passed by Georgia during the 1930s to the economic trends during this time and how they interacted across multiple states. I performed a regression analysis that examined per capita income from Georgia and several other states from 1932 to 1940 to see how several factors were related to this value. Since many of these factors are elements of income or can be directly influenced by income, there is likely to be endogeneity between the variables. The coefficients will show the relationships between the right-hand side variables and the dependent variable, but these relationships are not a causal relationship. The regression does not show that the changes in the right-hand side variable causes a change in the dependent variable. It shows only say that there is a relationship between them. Furthermore, causation may well go in both directions.

Figure 16



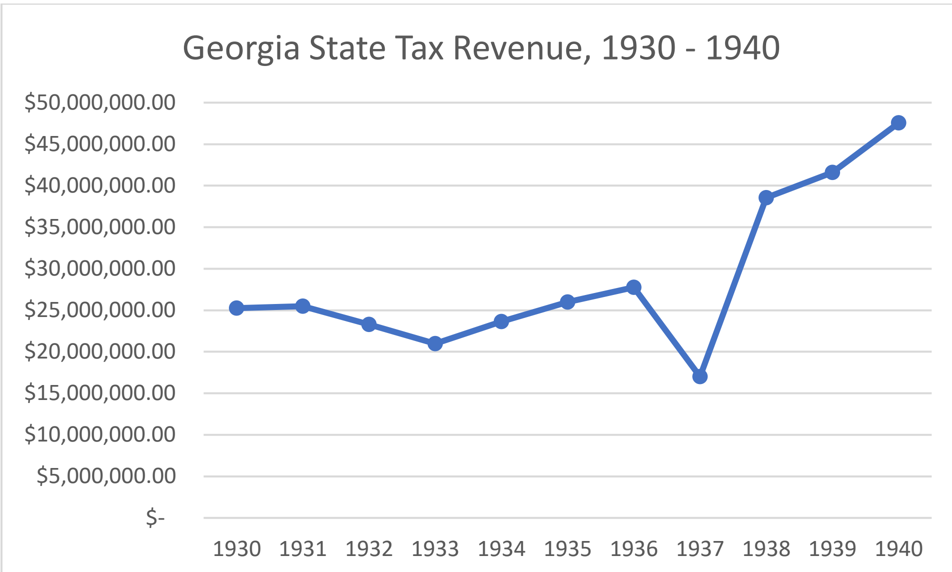
Fishback and Gutberlet

As seen in Figure 16, per capita income in Georgia steadily dropped starting in 1930 until reaching its minimum in 1932, just below $500. Afterwards, it steadily rose at roughly $25 to a $100 a year, peaking at slightly $700 in 1936. Although there was some decline afterwards, per capita income rose and was at almost $800 by 1940.

During the Great Depression and New Deal, states saw massive increases in their tax revenues as they began collecting taxes from new sources of revenue as well as increasing current ones. At the same time, they began investing in social welfare programs and infrastructure. Georgia was no exception, creating several new taxes during this time such as the income tax and liquor tax while also modernizing its roads and creating new social welfare programs. These trends could have either increased or decreased the per capita income of residents and this regressions analysis examines which occurred.

Several correlates were included in the regression. One variable was per capita state tax revenue. During the time period the data were collected, several taxes were adopted or revised by states, including the income tax. Tax revenue and per capita income are then likely to have an inverse relationship. As states took more in tax revenue, their citizens would likely see a decrease in in their income in response. Looking at Figure 17, state tax revenue in Georgia fluctuated between 1930 and 1936 before seeing a massive drop in 1937. This drop was then followed by rapid growth from 1938 to 1940, at a rate not matched in previous years.

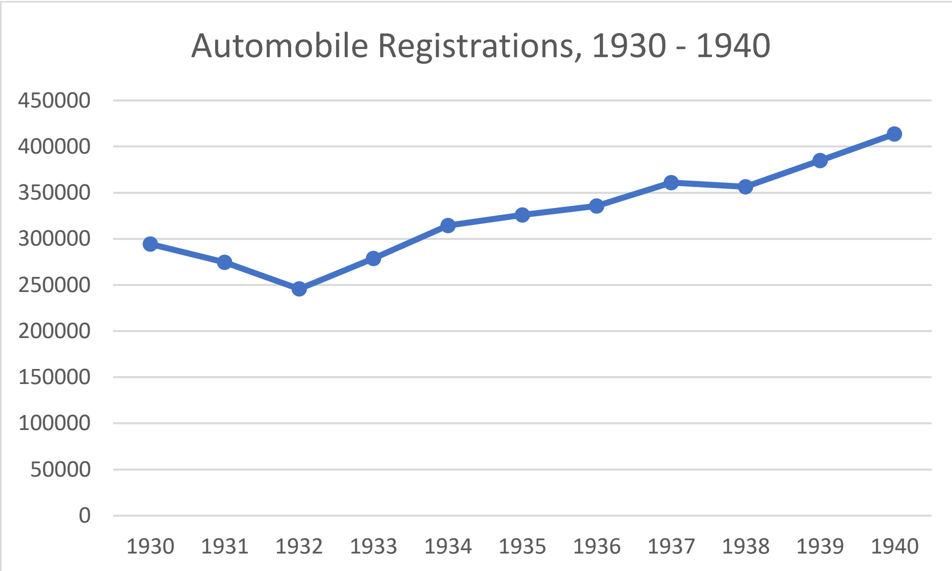
Figure 17



Fishback and Gutberlet

Another piece of data examined was percent of the population with automobile registrations. The relationship between auto registrations and per capita income could potentially be either positive or negative. During this time, automobiles were a significant source of tax revenue for the state. For example, the fuel oil tax on gasoline was Georgia's single highest source of tax revenue from 1929 to 1939. A rise in automobile registrations would be associated with a greater use of gasoline, reducing people's per capita income to pay for the tax. At the same time, automobiles acted as an important piece of equipment for farmers who used it to transport and sell their wares across the states they worked. An increase in car ownership and registration could then also result in a rise in per capita income, as more and more individuals are able to travel through the state to work, buy, and sell goods. Figure 18 shows automobile registrations in Georgia during this time from 1930 to 1940. Excluding a decline of about 50,000 registrations from 1930 to 1932, the number of cars registered each year steadily rose during this time period.

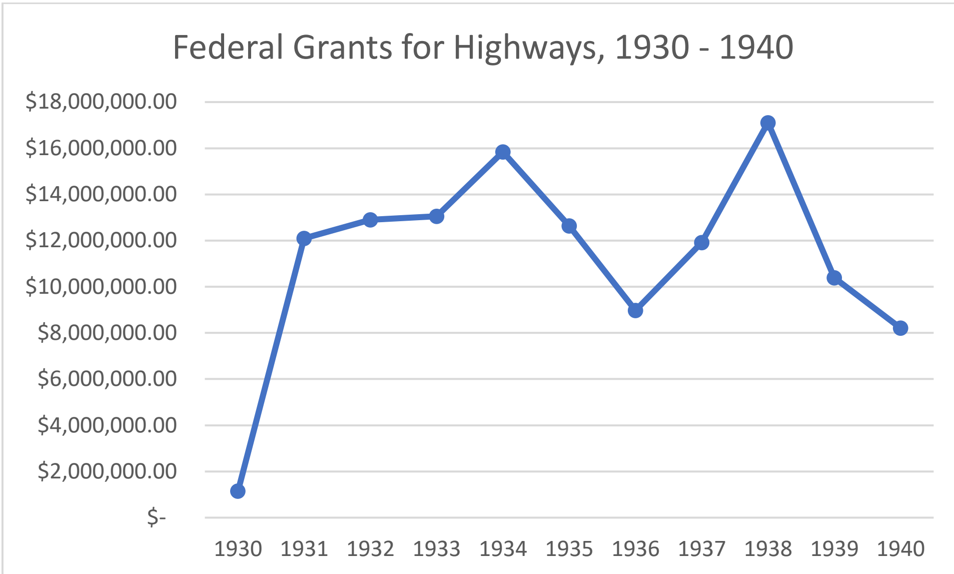
Figure 18



Fishback and Gutberlet

Federal grants for highways were also incorporated into the analysis. These federal grants were aimed at paving Georgia's low-quality roads to make it easier for its farmers to transport their wares. They were also distributed to gain political favor with local politicians. Their relationship with per capita income is then potentially ambiguous. Depending on how much the allocation of these grants were politically motivated, they may have had a small relationship with per capita income, being funneled to counties that did not need them. However, considering the general quality of roads in Georgia at this time, any improvement in the quality of roads may have been associated with higher per capita income. As Figure 19 shows, federal grants for highways in Georgia rose and fell throughout the 30s. There are twin peaks in 1934 and 1938 followed by valleys two year later in 1937 and 1940 respectively.

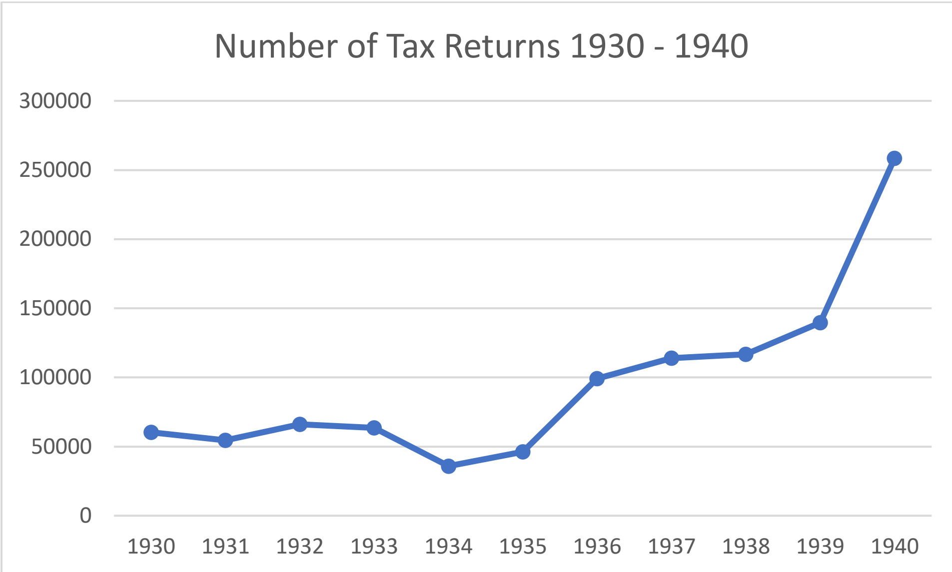
Figure 19



Fishback and Gutberlet

The regression also included the number of federal tax returns as a percentage of the population submitted by households in that year and state. Less than 10 percent of American households earned enough income to be required to pay federal income taxes, so this is a measure of the relative number of people in the state with high incomes. These tax returns would likely have a positive relationship with per capita income. The number of these tax returns appear to follow an upward sloping curve on Figure 21, with the increase in tax returns getting higher every year.

Figure 20



Fishback and Gutberlet

Finally, the regression incorporated the per capita return from farm crops and farm animals. Again, since Georgia was a mostly rural state, these were a significant source of revenue for its residents. An increase in these returns would then be associated with an increase in per capita income. Figure 22 and 23 show the change in returns from crops and animals, respectively. Both returns from crops and animals dropped at the beginning of the decade, likely due to the economic downturn associated with the crash of 1929. Once the implementation of New Deal programs began in 1933, the drop off in returns stops and crops even see a significant increase in their returns. This value would see a large rise until 1937 when it dropped off. However, these losses had been regained by 1940, where crop returns were at levels equivalent to their 1936 peak. Returns from animals remained steady for several years, after which they saw a slow and steady growth that appears to be unaffected by the economic fluctuations that reduced the returns from crops.

Figure 21

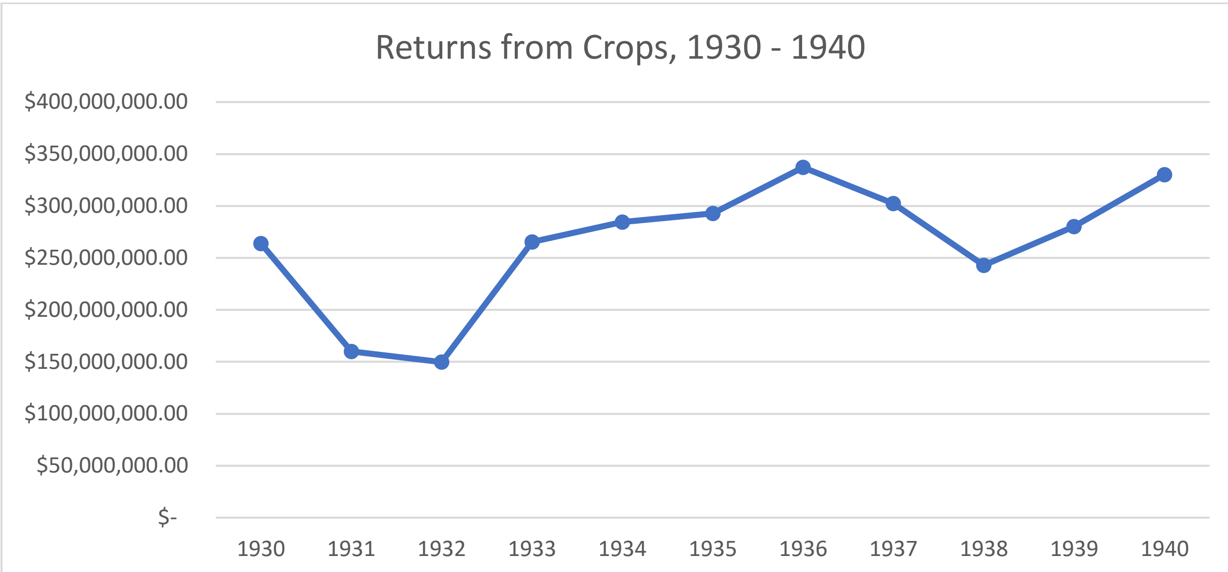


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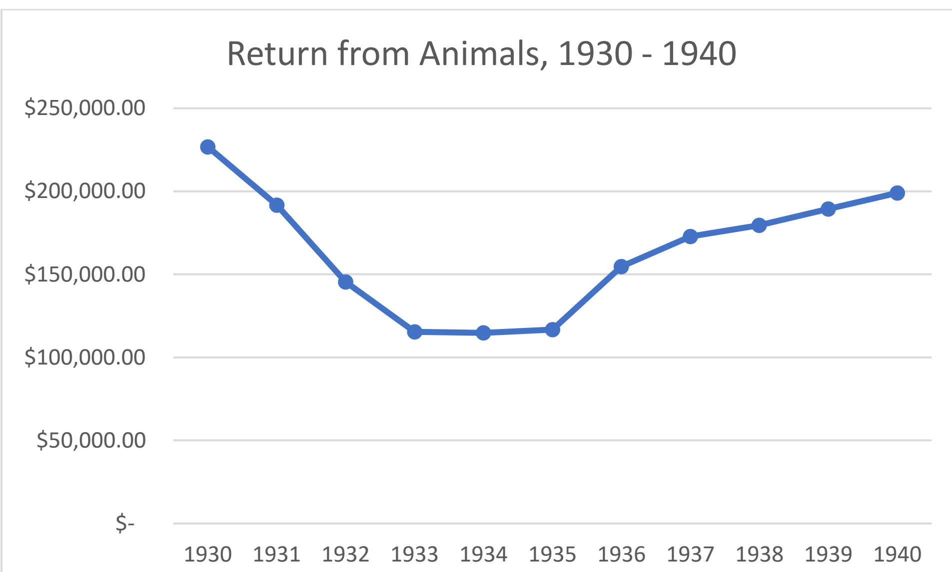
Figure 22



Fishback and Gutberlet

Like per capita income, all variables that were measured in dollars were adjusted for inflation using 1967 consumer prices as a base. The data were used for these variables was taken from a panel data set created by Price Fishback and Theresa Gutberlet. It included data from 16 states: New Hampshire, Rhode Island, Pennsylvania, Michigan, Ohio, Minnesota, Nebraska, Virginia, Georgia, Louisiana, Oklahoma, Colorado, New Mexico, Utah, Washington, and Connecticut. Data from these states account for the years 1930 to 1940. An Ordinary Least Squares (OLS) regression was used to estimate the relationship between real per capita income and these other factors. The following model was employed, with subscripts i referring to the state and t referring to the year:

$$Per\ Capita\ Income_{it} = \beta_0 + \beta_1(State\ Tax\ Revenue)_{it} + \beta_2(Per.Urban)_{it} + \beta_3(Auto\ Reg.)_{it} + \beta_4(Tax\ Return)_{it} + \beta_5(Federal\ Highway\ Funding)_{it} + \beta_6(Return\ from\ Crops)_{it} + \beta_7(Return\ from\ Animals)_{it}$$

This regression should provide a best linear least unbiased estimate of the relationships of each of these factors on per capita income from 1932 to 1940. The regressions found the following results.

Table 1

Mean and Standard Deviation of Per Capita Income and Correlates

Per Capita Income and Correlates	**Mean**	**Standard Deviation**
Per Capita Income	1058.52	2.88
Percent of Population with Auto Registrations	18.88	5.73
Percent of People Submitting Federal Tax Returns	6.93	6.09
Per Capita State Revenue	58.26	47.12
Per Capita Federal Highway Funding	7.61	10.99
Per Capita Returns From Animals	0.331	0.536

Per Capita Returns from Crops	100.49	76.37

Table 2

OLS Regression Coefficients and p-values Showing the Relationship Between Per Capita Incomes and Various Correlates Without State and Year Fixed Effects

Correlates	**Coefficient**	**p-value**
Percent of Population with Auto Registrations	38.31	0.00
Percent of Population Submitting Federal Tax Returns	20.02	0.00
Per Capita State Tax Revenue	-0.76	0.042
Per Capita Federal Highway Funding	-16.887	0.00
Per Capita Return from Animals	170.65	0.027
Per Capita Return from Crops	-2.47	0.00
Percent Urban Population		
Constant	514.559	0.00
Observations and R^2	N = 152	$R^2 = 0.7439$

As table 1 shows, each of the coefficients for variables appears to be statistically significant ($p < 0.05$). Percent of population with auto registrations has a positive relation, with a coefficient value of $3831.35 per auto registration. This value indicates that a one percent increase in auto registration in a state was associated with per capita income rising by $38.31.. This value indicates that cars were a critical tool for individuals to gain an income. The positive relationship between the two also suggests that the taxes associated with car ownership, such as fuel oil taxes, were not significant enough to decrease income.

As predicted, percent of population submitting tax returns also had a positive relationship with per capita income, likely because these returns are associated with a greater amount of people whose income is high enough to qualify for the federal income tax. The coefficient for percent of population submitting capita returns was estimated to be $20.02. A one percent increase in the population submitting tax returns is then associated with per capita income increasing by $20.02.

State tax revenue had an unsurprisingly inverse relationship with per capita income, as the coefficient was estimated to be -0.76. This coefficient suggests that holding every other variable constant, a $1 increase in the per capita state tax revenue decreases the per capita income by $0.76. However, the coefficients for return from crops and federal high highway funding were both negative with values of -2.47 and 16.88 respectively. These results are counterintuitive, considering that both should be associated with a higher per capita income. One potential explanation is that the returns from crops may not have been as profitable as livestock. Another is that the greater variability in returns from crops, especially in years of economic instability, created a downward pressure on incomes. For Federal Highway funding, there is also the chance that these funds were distributed to areas to earn political favors rather than aid roads that needed improvement, meaning the money was essentially going to waste.

Another explanation for these counterintuitive results is that this regression model does not account for specific events or shocks across states and years. Certain states and years may have undergone events such as natural disasters or economic contractions not captured in this regression and its data. To adjust for these variations, a fixed effect regression model was ran with these variables. The fixed effect model incorporated dummy variables for each of the states in the regression as well the years the data came from. The fixed effects regressions can be modeled as

$$Per\ Capita\ Income_{it} = \beta_0 + \beta_1(State\ Tax\ Revenue)_{it} + \beta_2(Per.Urban)_{it} + \beta_3(Auto\ Reg.)_{it} + \beta_4(Tax\ Return)_{it} + \beta_5(Federal\ Highway\ Funding)_{it} + \beta_6(Return\ from\ Crops)_{it} + \beta_7(Return\ from\ Animals)_{it} + \beta_8(Vector\ of\ State\ Dummies) + \beta_9(Vector\ of\ Year\ Dummies).$$

The vector of state dummies includes a dummy variable for each state except one in the sample and the vector of year dummies includes a dummy variable for each year except one. The excluded state was Connecticut while the excluded year was 1930. The state dummies control for factors that do not change over time in the state but vary across states, while the year dummies control for national shocks experienced by all states that vary from year to year. The variation used in the estimation to calculate the coefficients is variation across time within each state after controlling for national shocks.

Table 2

OLS Regression Coefficients and p-values Showing the Relationship Between Per Capita Incomes and Various Correlates with State and Year Fixed Effects

Correlates	**Coefficient**	**p - value**
Percent of Population with Auto Registration	30.51	0.00
Percent of Population Submitting Federal Tax Returns	7.68	0.00
Per Capita State Tax Revenue	0.11	0.434
Per Capita Federal Highway Funding	2.79	0.199
Per Capita Return from Animals	6.77	0.943
Per Capita Return from Crops	0.28	0.306
Constant	1075.575	0.00
Observations and R	N = 152	$R^2 = 0.9846$

Once the fixed effects are added to the regression analysis, there were only two correlates that had coefficients that were statistically significant, percent of population submitting federal tax returns and percent of population with auto registrations. Furthermore, every coefficient for the variables became positive after the fixed effects were incorporated into the regression. This value indicates that some of the more counterintuitive results, such as the relationship between federal funding for highways and per capita income, were likely due to heterogeneity in state features that did not change over time, like climate and geographic location, or due to national changes in regulations or monetary and fiscal policy. The coefficient for percent auto registrations appears to have stayed roughly the same, dropping by about only $8. However, the coefficient of percent tax returns dropped significantly, going from $20.02 to $7.68. Since a rise in the percentage of the population submitting tax returns is associated with more individuals qualifying for federal taxes, the drop in this coefficient suggests that rise in wealth associated with someone submitting these taxes was not associated with as strong a rise in income on average. This would indicate that changes in wealth associated with a rise in the submission of these tax returns was more concentrated in the upper class.

Conclusion

This paper focused on two parts of the Great Depression and New Deal in Georgia: the response of the Georgia state government to both events and how certain economic and demographic trends impacted the average standard of living for individuals in Georgia and several other states. The first part examined the five most significant measures the state took in response. These included the passage and adjustment of an income tax, the building of highways with federal aid, ending Prohibition in the state, revising the gasoline tax, and expanding the state's welfare programs. Georgia was able to accomplish these measures despite a dysfunctional legislature that struggled to pass laws that raised taxes or further progressive policies. Furthermore, their relationship with the federal government was equally complicated while passing these measures. In some ways they accepted the help of the federal government, such as grants for highways and welfare programs. On the other hands, they would also resist the federal government's influence in the state, especially while Eugene Talmadge served as governor. The reasons behind this struggle were complex. Some Georgians, including Talmadge, had a genuine distrust of government aid and expansion, considering it be antithetical to Georgian values. On the other hand, federal aid also threatened local political power structures, such as the courthouse gangs, that gave politicians such as Talmadge their power. When Talmadge would accept this aid, he attempted to coopt it and hand it out as political favors to his political allies. Regardless of what motivated this opposition, it was not long lived. By the back half of the 1930s, Georgia fully embraced the expansion of state and federal government under the leadership of Governor Eurith Rivers. Tax revenue and expenditures rose to a level never seen before in Georgia history. Rivers would run into a new issue during this time, the challenge of funding these new programs.

His failure to address this problem would harm the legitimacy of many his reforms and cost him the political will to further expand state aid during the 1930s. However, the programs did enact would become entrenched in Georgia's politics and economics and by the time Talmadge returned to the governorship in the 1940s, he would not touch those programs.

The analysis of the role of economic trends and demographics on the welfare of individuals in Georgia and several other states employed both a multiple regression and fixed effects. The fixed effects were used to control for any variance in the data that may have been caused by specific states or years. In this analysis, real per capita income was regressed against several correlates. The fixed effects regression analysis found two factors that had a statistically effect on real per capita income: the per capita sum of tax returns filed and the per capita auto registrations. Both were found to be positively related to per capita income. These are both intuitive results. The fact that per capita auto registrations was associated with higher average income indicates that the economic opportunities driving opened up for laborers outweighed the costs it imposed, such as gas taxes. Although individuals filing tax returns would suggest a reduction in income due to paying these taxes, the fact that tax returns were only filed by the very wealthy means that an increase in tax returns would increase average income, since more people would be wealthy enough to qualify for taxes. This indicates that some of the growth of per capita income was concentrated in the very wealthy who had to file these taxes.

The years from 1929 to 1940 were a period of great change for Georgia. It saw an unprecedented growth of government, spending, and taxation in response to the Great Depression. The political structures that had decentralized power in the state were eroded and the state modernized its infrastructure and government. The idea of what kind of role the government, both state and federal, could play in peoples' lives changed as the New Deal improved the living standards of many in the state. At the same time, modern technology, such as cars, created new opportunities for the state's residents, while the rise in the number of people earning enough income to pay federal taxes contributed to a rise in average per capita income.

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