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Taxation and Public Finance in South Dakota

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Farm Economics Department
Agricultural Experiment Station
South Dakota State College of
Agriculture and Mechanic Arts
Brookings

co-operating with the

Bureau of Agricultural Economics
United States Department of Agriculture

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by

E. P. CROSSEN*

Of the many problems that confront the American people at the present time, few are entitled to and are receiving as much consideration and study as that of taxation and public finance.

The proper financing of local and state government is an important and serious problem which directly affects the prosperity and happiness of all citizens. Taxation has always been a live question. Taxes represent expenditures for group purposes rather than for the private purposes of the specific individuals paying them. Therefore, the benefits and services secured through them are not as directly recognizable as are the benefits or services secured by private expenditure. Neither is it as easy for the individual to determine the merits of any given public expenditure as it is for him to decide whether a private purchase or payment will warrant his making the necessary expenditure for it.

Tax Trend Is Upward

No proof is needed of the fact that the general trend of taxation for the past twenty years has been upward. This upward trend may be halted and the total tax in some taxing districts reduced; but, unless there is some unlooked for change in the American standard of living and a lessening of the demand made upon government to do and pay for things that we formerly did and paid for individually, any reduction will be temporary.

The cost of government, particularly the cost of state and local government, is influenced by the habits and standards of living of the people supporting the government and by the degree of self control and intelligence used by them in voting on matters of public expenditure. A considerable part of the rise of taxes represents a cost of providing improved facilities and additional services which either were thought unattainable or were not considered necessary twenty years ago. Following are a few examples:

The average boy or girl is proceeding farther in schools supported at public expense than he formerly did. This necessitates additional school employees. Not many years ago a much smaller percentage of boys and girls finished the high school course, and likewise a much smaller percentage went through college.

Increasing complexity of society continually increases the requirement for more regulation by governmental agencies.

The increased use of the automobile has created a tremendous demand for improved roads.

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*Acknowledgment is due to property owners in Brookings, Hamlin, Day, Beadle, and Pennington counties in supplying income and other data upon which part of this study is based; to Professor R. E. Post, of the Farm Economics Department of South Dakota State College, who did much of the preliminary work in connection with this study; to Professor M. R. Benedict, head of the Farm Economics Department, South Dakota State College; to Judge B. W. Baer, Director of Taxation, Department of Finance, State of South Dakota; and to Mr. Nils A. Olsen, Assistant Chief, Bureau of Agricultural Economics, United States Department of Agriculture, for valuable criticisms and suggestions.

Community, county and state pride leads to increased expenditures for civic buildings, court houses, and other indicators of community pride and prosperity.

Certain phases of what were formerly considered private business have been taken over by the government. For example we have municipally owned and operated lighting and telephone systems; we have the state loaning of money on farm lands; we have a state owned and operated cement plant and coal mine; and numerous other state activities, which were not previously engaged in.

Along with these, it should be recognized that South Dakota is a young state. It has been attempting to provide for itself in a comparatively few years a system of schools, of roads and bridges, of public buildings, etc., such as have required a hundred years or more to build up in many of the older states.

The problem of taxation is not altogether one of low or high taxes. It is also a problem of the equitable distribution of the tax burden and of the relation between the improvements and services desired and the ability of the state to afford such improvements and services.

Tax Burden Has Been Heavy

During the years that this study covers, 1919 to 1926 inclusive, agricultural returns have been relatively low except in the year 1919. Taxes would have been difficult to meet—even if there had been no increase in their amount as compared to the pre-war years. Naturally, under these conditions, a great deal is said about high taxes, and comparatively little consideration is given to the improvements and services secured by means of these taxes. There is no special inherent merit in performing any given function through public as compared to private expenditure. The problem is a practical one. Those things which can be done more efficiently and economically by private activity should be so performed. Those things which can be done more efficiently and economically by community or state action should be so performed, assuming that some reasonable relation between the expense to the individual members of the community and the benefits secured by them as individuals can be established.

The problem of taxation is inseparably connected with the whole field of public finance, and the proper understanding of it involves a study not only of direct taxes as one source of revenue, but of the alternative sources of revenue, of the spending and custody of public funds, and of questions of state and local indebtedness. Consideration of public revenue, public expenditure, public indebtedness, and financial administration, etc., is no longer the concern of government officials only. These questions have come to be of general interest. Year by year, in South Dakota as in other states, state and local public expenditures have been increasing. The revenue necessary to meet these increased public expenditures has come largely from general property taxes which have rested heavily upon agriculture, particularly since the agricultural depression which began in 1920 and 1921. Per capita public indebtedness has increased as a result of such things as the financing of highway construction, the undertaking of various

state enterprises, the building of new and better schools in many localities in the state, the construction of court houses and other public buildings, and as a result of such things as the soldiers' bonus and the rural credits system.

Taxes and Fiscal Administration Related

Naturally, this has led to a general interest in fiscal administration. Are the large per capita public expenditures due to inefficiency on the part of government officials; are they due to administrative expansion; to a more extensive and varied program of social welfare work; or to the growing complexity of our economic life? Is the present policy of highway building too comprehensive and in advance of what is warranted by other conditions—growth of population, development of natural resources, status of agriculture, etc.? Is the present educational program on a scale greater than the people can afford? These problems have prompted this study of the public finances of the state. The pages that follow will, for the most part, be devoted to presenting as clearly as possible the whole picture of the public finances of South Dakota. In the final pages some principles brought out by various other studies, but not necessarily covered in the present study, will be given wherever these are generally accepted by students of public finance. It is planned that study in this field will be continued in an effort to develop more information as to possible improvements in our methods of raising and spending public funds. The present bulletin is published at this time as a means of informing citizens of the state as to the present organization and administration of the state.

Relation of Taxes and Income

According to the United States Department of Agriculture, farm taxes in the United States increased 140 per cent from 1914 to 1923, whereas the value of farm products increased only 58 per cent. In other words, the farmer has been finding it increasingly difficult to pay his taxes in recent years. During the same period, total direct taxes on all property in South Dakota increased 166 per cent. General property taxes in South Dakota reached a peak in 1920, but it was not until the following year that the farmers in the state found their taxes most difficult to pay. In 1921, a combination of high taxes and low net income brought about a high ratio of taxes to net income from farm property in South Dakota.

Between 1915 and 1919, direct taxes levied in South Dakota increased very rapidly. Farmers did not find them more difficult to meet because the prices they received for their products, or the income out of which they paid the taxes, also increased. There was a marked increase in the total direct taxes paid in 1920 over those of the year previous, but a decrease in the average prices received for farm products. The year 1920 marks the beginning of a period, not yet ended, which is characterized by a disparity between taxes that are paid and prices that are received. Figure 1 shows that taxes reached a peak in 1920. They have decreased a little from that peak, but have apparently become stabilized at a level much higher than that of pre-war years. This is what has taken place after every war in which this country has engaged. War increases public expenditures and leaves them on a permanently higher level.

Farm prices had begun to slump by 1920, and had reached their lowest point in 1921. This was the most unfavorable year for the farmer of the period 1915 to 1925 inclusive. The year 1921 was one of relatively high taxes and of low farm income. Beginning in 1922 and continuing to 1925, the ratio between taxes and farm prices was becoming more favorable; but even in 1925, there was still a wide spread between the curve representing taxes and that representing income. Owing to a combination of poor crops and low prices in 1926, there is no doubt but that this spread would be even greater in 1926 than in 1925.

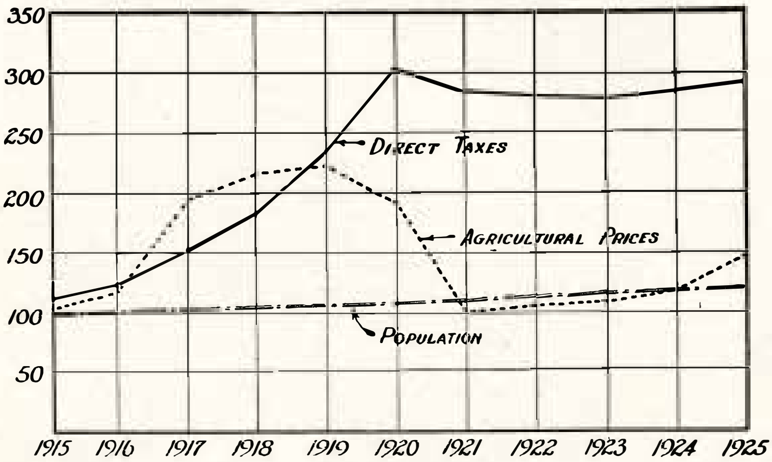

Fig. 1.—Indices of direct taxes, farm prices, and population, State of South Dakota, 1915-1925. 1911-1915 (inclusive) equals 100.

The same problem is found in other states and is being studied extensively. The Bureau of Agricultural Economics, United States Department of Agriculture, and several different Agricultural Experiment Stations, have either completed or initiated studies of farm taxation problems. The question of taxation is of vital concern not alone to farmers and agricultural interests, but to trade and commercial agencies as well, and several of these have been conducting investigational work on taxation in its relation to agriculture. Some of the state tax commissions have also made studies of certain phases of the problem.

The objective of most of this investigational work has been to ascertain the relative ability of different classes of people to pay the higher taxes, to find the relation of taxes to rent on agricultural and city real estate, to find the relation of taxes to farm and city values, and, in a general way, to establish a relationship between taxes and farm income. To aid in providing more information on which to base a constructive plan for raising and using the public revenues of South Dakota, the Department of Farm Economics, South Dakota State College, in cooperation with the Bureau of Agricultural Economics, United States Department of Agriculture, engaged in a study of the problem in South

Dakota. The primary aim is to present the facts impartially and in such a manner that they will stimulate a more active interest in the financial affairs of the state and of the local taxing units. The aim is one of education rather than one which advocates or promulgates any specific policy of fiscal administration. It is believed that any policy that has in view the development of South Dakota along all lines must be based upon facts. Finally, it is hoped that such an analysis will be helpful along with similar studies in marketing, farm management, rural sociology, etc., in working out an agricultural program for the state.

THE METHODS ADOPTED

Collection of Data.—The material presented in the following pages is based upon data that were obtained from both primary and secondary sources. Information relating to the net income from farm and city property was obtained from farm and city property owners themselves—largely from farmers, real estate operators, banks and holding corporations of banks, and from other property holders. Copies of the questionnaire forms that were used are found in the Appendix. The information obtained was recorded on questionnaire forms by enumerators sent out from the Department of Farm Economics, South Dakota State College.

Time and the funds available did not permit the making of a detailed study of all counties in the state. Certain representative counties were selected and it is believed that the results are not much different from what would have been obtained had a state-wide survey been made. Five representative counties were selected—Brookings, Hamlin, Day, Beadle and Pennington counties. Brookings county is in the corn area in South Dakota; Hamlin county has a number of consolidated schools; Day county is representative of the spring wheat producing area; Beadle county has as its county seat, the city of Huron, and is representative of the type of farming carried on in that part of the state. These four counties are east of the Missouri River. Pennington county is fairly representative of the type of farming carried on west of the Missouri River. It is believed that these five counties give a representative picture of various sections of the state; and, since they are not specifically selected, are believed to reflect accurately taxation conditions in the state.

Table I.—NUMBER OF FARMS IN COUNTIES STUDIED AND NUMBER OF FARMS COVERED IN SURVEY.

	All Counties	Beadle	Brookings	Day	Hamlin	Pennington
Census, 1925	8002	1771	2014	1933	1096	1188
Survey	164	35	30	48	31	20
Per cent survey is of Census	2.0	2.0	1.5	2.4	2.8	1.7

The average size of farm selected was smaller than the average size of farm reported by the census of 1925 for all farms in the state. Comparison between the average size and the average value of farms according to the 1925 census and the survey is made in Table II. The

average size of farm selected in the survey was 302 acres, whereas the average size of all farms in the same counties according to the United States census in 1925, was 367 acres. In all cases, the owners put a higher valuation per acre upon their land than the census figures show. This is particularly true in Pennington county, where the owners' valuation was almost three times that of the census valuation per acre. The average valuation per acre, according to the survey, was $62.05, and according to the census, $47.29. The survey apparently covers farms having a somewhat higher degree of development than the average for the counties in which they are located.

Table II.—AVERAGE ACREAGE AND VALUE OF RENTED FARMS IN SOUTH DAKOTA, ACCORDING TO 1925 CENSUS, COMPARED WITH SURVEY FOR 1925, BY COUNTIES.

	Census, 1925			Survey, 1925		
County	Number of farms	Average acreage per farm	Average value per acre	Number of farms	Average acreage per farm	Average value per acre
Brookings	2014	232.9	70.97	30	223.7	90.66
Day	1933	307.4	40.89	48	240.4	51.01
Beadle	1771	369.2	53.07	35	241.0	64.05
Hamlin	1096	269.4	58.37	31	196.1	66.97
Pennington	1188	655.3	13.16	20	610.4	37.57
Av. of all counties	8002	366.8	47.29	164	302.3	62.05

The taxes and the assessed valuations of the farms and city properties studied were obtained from the county auditors of the five counties named. Much of the rest of the material presented is based upon the annual and special reports of state departments, boards, and commissions.*

Many farms are rented on a share basis in South Dakota, making it more difficult to arrive at the net income before deducting taxes, than in the case of cash rented farms. Share rent was, however, converted to a cash rent by multiplying the share of product going to the owner by representative farm prices. Rented property was selected in order that the owner's income might the more readily be obtained. Moreover, according to the United States Census of Agriculture 1925, as many as 41½ per cent of the farmers in the state that year were tenants. In order to arrive at the property owner's net income before paying taxes, the following deductions and allowances were made. From the gross income of city property, depreciation at the rate of 3.4** per cent on

*The writer has brought this information together in an endeavor to show any interrelationships, and to present a general picture of the whole subject of public finance as it relates to South Dakota, rather than a more detailed analysis of any part of it. He wishes to acknowledge his thanks to all those who so kindly contributed of their time and services and in that way made this report possible.

Similar studies to this have been or are being carried on by other Agricultural Experiment Stations. The Bureau of Agricultural Economics, U. S. Department of Agriculture, has done a great deal to coordinate the work in the various states by giving valuable advice and suggestions as to methods of analyzing the data collected. The methods of analysis followed in this report are largely those adopted in other states at the suggestion of the Bureau of Agricultural Economics.

**This figure was arrived at through conference with representatives of the U. S. Bureau of Agricultural Economics, and was considered to be representative of usual costs under this heading.

the owner's valuation of buildings was allowed, besides any water, light, or other special charges. The following deductions were made from the gross income of farm property in order to obtain the net income before paying taxes: A depreciation allowance of 3.4 per cent of the owner's valuation of buildings and 8 per cent on his valuation of the fences; any seed supplies by the owner, and any threshing, marketing, or other special charges such as insurance paid by the farm owner.

A distribution of the tax dollar, according to the levying jurisdiction and according to the purpose for which spent, was obtained by applying the various tax levies in each county to the assessed valuation of the farm and city property selected.

Presentation of the Data.—The following pages have been written with the idea that those who read them will be more interested in broad general principles rather than in a detailed analysis of any one phase of the public finances of the state. It was thought well, therefore, to present the whole picture within the limits of one report, rather than a part of that picture analyzed in some detail which might interest a smaller number of people. In that way, it was possible to consider the whole subject of public finance as it relates to South Dakota—public revenues, public expenditures, public indebtedness, and fiscal administration. The field is so comprehensive that time and the facilities available permitted only a general study of any one phase of it.

SOURCES OF STATE AND LOCAL REVENUE

Sources of State Revenue.—Just as an individual derives his income from various sources—from wages or a salary, from profits from his business, from interest on any of his investments—so the state and local governments derive their revenue or income from various sources. Taxation is the bulwark of both the state and local systems of public revenue in South Dakota, but is by no means the only source of revenue. The state derives its revenue from various sources; from taxes; from the Federal government; from fees; from state enterprises; and from miscellaneous sources. Figure 2 represents in graphic form the relative importance of the various sources of revenue for the state government only. The sources of local revenue—including the county, the township, the school district, and the municipality—will be discussed later.

Income From Taxes.—The state gets about 52 per cent of its revenue from taxes. This includes the general property tax and the various special and excise taxes. The most important tax is the general property tax. From a fiscal standpoint, however, it has decreased in importance from the early part of the period, 1919 to 1926 inclusive. In 1919, as much as 45 per cent of the total state revenue was derived from the general property tax. By 1921, the revenue from this source had decreased to 36 per cent of the total revenue received by the state government, and by 1923, to 29 per cent. During the past three years, the general property tax has yielded, on the average, 26 per cent of the total state government revenue. Important as it is as a source of state revenue, it is even more important as a source of local revenue. It is, therefore, discussed in some detail later on under the latter heading.

Table III gives the assessed valuation of the various classes of property in South Dakota during the years 1919 to 1926, inclusive.

Table III.—FINAL VALUES OF ALL PROPERTY BY CLASSES IN SOUTH DAKOTA FOR THE YEARS 1919 TO 1926, INCLUSIVE (IN MILLIONS)

	General Property																	
	Real Estate								Personal Property				Total		State Assessed		
	Agricultural Land		City Real Estate		Mineral Lands		Total Real Estate		Personal Property		Money and Credits		General Property		Public Utility Property		All Property
Year	Total	% of total	Total	% of total	Total	% of total	Total	% of total	Total	% of total	Total	% of total	Total	% of total	Total	% of total	
1919	1,363	65.1	148	7.0	16	0.7	1,526	72.8	320	15.3	111	5.3	1.957	93.4	138	6.6	2,095
1920	1,548	68.5	157	6.9	15	0.7	1,719	76.1	300	13.3	105	4.6	2,124	94.0	134	5.9	2,258
1921	1,444	70.0	155	7.5	12	0.6	1,611	78.0	236	11.4	80	3.9	1,927	93.3	138	6.7	2,065
1922	1,397	70.6	153	7.7	12	0.6	1,562	79.0	213	10.8	66	3.3	1,840	93.1	137	6.9	1,977
1923	1,377	70.9	172	8.8	12	0.6	1,560	80.3	171	8.8	73	3.8	1,804	92.9	137	7.1	1,941
1924	1,306	69.6	164	8.7	12	0.6	1,482	78.9	192	10.2	71	3.8	1,745	92.9	131	7.0	1,876
1925	1,306	69.6	166	8.8	11	0.6	1,482	79.0	189	10.1	77	4.1	1,748	93.2	128	6.8	1,876
1926	1,246	69.0	165	9.1	10	0.6	1,421	78.7	180	10.0	74	4.1	1,675	92.8	131	7.2	1,805
8-year Av.		69.2		8.1		0.6		77.9		11.2		4.1		93.2		6.8	

Supplementing the general property tax as a source of state revenue in South Dakota are various special or excise taxes, the most important of which are the motor fuel tax, the motor vehicle license tax, and the cigarette tax. The motor fuel or gasoline tax is the second most important source of state revenue. During the past fiscal year

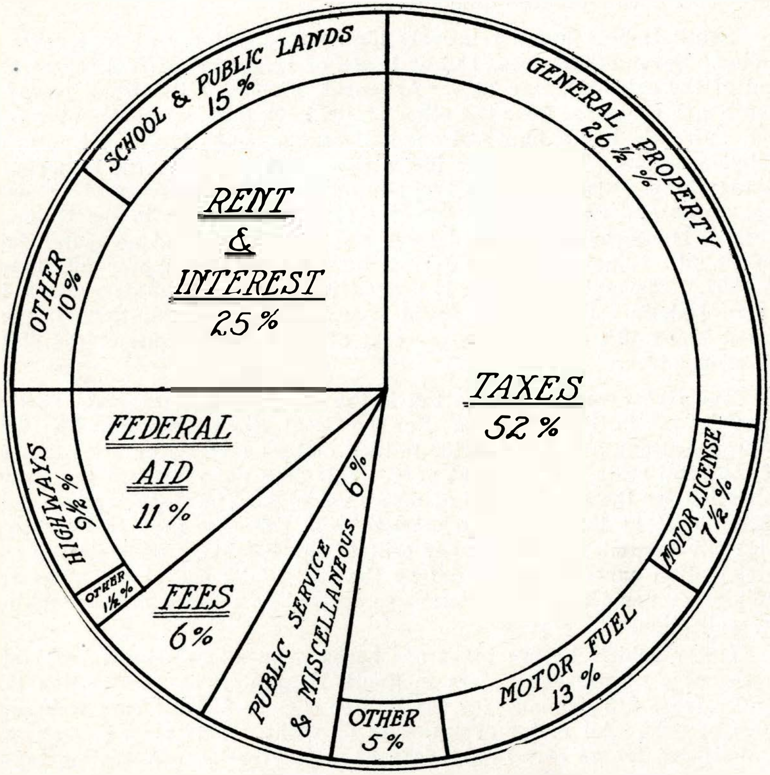

Fig. 2.—The percentage distribution of the sources of state revenue in South Dakota for the fiscal year ending June 30, 1926.

it produced almost two million dollars of state revenue. The first gasoline tax in South Dakota became effective on and after January 1, 1922. It was a tax of one cent a gallon and for the latter half of the fiscal year ending June 30, 1922, yielded $146,090. A law approved March 12, 1923, raised the tax on gasoline to two cents a gallon. This law became effective on and after July 1, 1923, and for the fiscal year ending June 30, 1924, yielded $918,852. The tax on gasoline was again raised one cent by a law which became effective on and after July 1, 1925. For the fiscal year ending June 30, 1926, the three-cent fuel tax yielded

$1,957,495. At the twentieth session of the state legislature which met during the winter of 1927, the motor fuel tax was raised to four cents. The revenue from the additional one cent will go into the general fund to provide sinking fund for and to pay interest on state highway bonds. This was formerly paid by state levy. It is estimated that the additional one cent gasoline tax will make available between $750,000 and $800,000 for this purpose annually.

South Dakota has a relatively high motor-fuel tax of four cents a gallon. Seven other states had as large, or larger motor-fuel tax at the end of the calendar year 1926. Arkansas, Florida, Mississippi, Nevada, and North Carolina, were the other states having a four-cent motor-fuel tax. Virginia had a four and one-half cent gasoline tax, and Kentucky a five-cent tax. Three states had a three and one-half cent tax; seven states, three cents; one state, two and one-half cents; twenty-two states, two cents; and two states, a one-cent tax. Four states in the Union—Illinois, Massachusetts, New Jersey, and New York, had no motor fuel tax at all. Illinois and New Jersey, however, adopted motor fuel taxes in 1927. The motor fuel tax is a significant source of state revenue in South Dakota. During the fiscal year ending June 30, 1926, it produced $2,296,495, or about 13 per cent of the total revenue of the state government.*

The motor vehicle license tax is the second most important special or excise tax in South Dakota. For the fiscal year ending June 30, 1926, it produced one and one-quarter million dollars revenue or 7½ per cent of the total state revenue that year. This does not represent the entire collection for the registration of motor vehicles. The state receives only 52 per cent of the money so collected—50 per cent goes to the State Highway Commission, and 2 per cent to the Secretary of State for administration expense and to defray the cost of license plates. The remaining 48 per cent of the revenue so derived goes to the county making the collection.

Motor vehicle license taxes are based upon manufacturers' weights in the case of passenger cars in South Dakota. The registration tax ranges from $13 annually for the lighter cars to $35 for cars weighing 4,000 pounds. All motor cycles, with or without side cars, pay an annual license fee of $5. In the case of motor trucks, registration taxes are based upon carrying capacity. The annual registration tax ranges from $15 for trucks or commercial cars having a carrying capacity of less than one ton, to $75, for those having a capacity of three tons or over. There is no general property tax on motor vehicles in South Dakota. It is well to point out, however, that motor vehicles are assessed

*Not all motor fuel that is consumed in South Dakota is taxed. That which is used for operating and propelling stationary gas engines, tractors for agricultural purposes, motor boats, lighting, heating, cleaning, or dyeing, or other similar commercial uses, is exempt from taxation. A bill was passed at the twentieth session of the state legislature during the winter of 1927, which provides for the collection of motor fuel taxes. This law requires each dealer in motor-vehicle fuel in South Dakota to render monthly reports to the state auditor and state treasurer, giving the number of gallons of gasoline in his possession, and all motor-fuel received by him from any source whatsoever, during the month preceding the time when the report is rendered. The tax as shown by the report is payable to the state treasurer. This new law will make it easier for the state treasurer to enforce collection. It should also make for lower administrative costs as not so many records will be necessary and the checking of dealers will be easier.

and taxed as any other personal property, if not duly registered and licensed by May 1 of any year.*

The third most important special or excise tax is the tax on cigarettes and cigarette papers or wrappers and tubes that are sold in the state to consumers. During the past fiscal year the cigarette tax contributed approximately 2 per cent of the total state revenue. The cigarette tax in South Dakota became effective July 1, 1923. The tax ranges from a half of one cent on cigarette papers to 8 cents a package on expensive cigarettes. On the cheaper and more popular brands the tax is 3 cents a package.

These stamp taxes are paid to the state treasurer and from July 1, 1923, to July 1, 1925, were credited to the general fund of the state. From July 1, 1925, to July 1, 1927, the revenue derived from such taxes was credited to a special building fund for the purpose of erecting permanent buildings at the state educational institutions that are under the control of the Board of Regents. The buildings so designated by the Board of Regents with the consent and approval of the Governor were as follows: A library at State College, Brookings; a physical education building at Northern Normal, Aberdeen; a gymnasium and auditorium at the School of Mines, Rapid City; and an armory at the State University, Vermillion. During the fiscal year ending June 30, 1926, cigarette stamp taxes and cigarette license taxes yielded approximately $340,000—the former, $317,000, or 93 per cent of the total revenue so derived, and the latter $23,000, or 7 per cent of the total revenue. This revenue will continue to go to the special building fund until April 1, 1928, when it will revert to the general fund. It is expected that the time and revenue before that date will be sufficient to complete the building program indicated above.

In addition to general property taxes, the motor fuel tax, the motor vehicle license tax, and the cigarette tax, there are a number of other taxes. These miscellaneous taxes contributed 3 per cent of the total state revenue during the fiscal year ending June 30, 1926. The most important of these is a tax on insurance companies which are called upon to pay into the state treasury each year as taxes, 2½ per cent of the gross amount of direct and reinsurance premiums received in this state during the preceding year. During the fiscal year ending June 30, 1926, the proceeds from this tax amounted to $344,642. Moreover, all fire insurance companies doing business in the state pay to the commissioner of insurance as taxes, one-half of one per cent of the gross premiums they receive. This tax is for the purpose of defraying the expenses incurred by the state fire marshal in the execution of his duties. During the fiscal year ending June 30, 1926, the state fire marshal tax yielded $18,851.

Next in financial importance among the miscellaneous taxes, is the state inheritance tax. This is not a property tax, but a tax upon the right of succession. The inheritance tax is under the supervision of the Director of Taxation, who determines the amount. The basis used in

*It has already been mentioned that motor fuel taxes in South Dakota are relatively high. The same can be said of motor vehicle license taxes. On a typical car license taxes in South Dakota were exceeded in 1926 by those of only twelve other states.

computing the rate is the net value of the property transferred. A progressive rate is provided ranging from one per cent on property left to direct heirs, up to 20 per cent on fourth class property left to collateral heirs or strangers. Liberal exemptions are allowed to direct heirs, and, even in the case of others, the rate is not excessive. During the fiscal year ending June 30, 1926, the inheritance tax yielded $160,197.

In 1919 the state legislature made a separate classification for money and credits, subjecting them to a levy of three mills on the dollar of assessed valuation. This was a lower rate than that applied to tangible property. By money and credits is meant gold and silver coin, gold certificates, silver certificates, United States notes, National bank notes, Federal Reserve notes, and miscellaneous currency in circulation, together with all rights to receive such moneys or other valuable things as, for example, bank deposits, annuities, etc. As was expected, the Money and Credits Act of 1919 resulted in a large increase in the amount of such property that was listed for taxation. There was approximately 50 per cent increase in the amount of personal property listed for taxation in 1919 as compared with the year previous. As much as 40 per cent of the increase in personal property was due to the listing of money and credits for taxation, in 1919. Moreover the number of persons who furnished a list of money and credits property, increased over 600 per cent during the first year the act was in effect. In 1923, the rate was raised to four mills on the dollar. The money and credits tax, however, is not important from a fiscal standpoint. During the fiscal year ending June 30, 1926, the state revenue so derived amounted to $73,816.

Express companies are required to pay a gross earnings tax of 5 per cent on all sums earned or charged for business done within the state. During the above fiscal year, the state government derived $13,282 from this source of revenue. A bank stock tax and telephone tax contribute less than one per cent of the total state revenue. There are no taxes assessed against corporations doing business in this state, except upon property owned by such corporations.

Income from Rent and Interest.—The receipts from the rent of investment properties held by the state, and interest on the various funds of the state government rank next to taxes as a source of revenue for the state. The Bureau of the Census, U. S. Department of Commerce, points out that while all states on the average received 4½ per cent of their total revenue in this way during the past three years, South Dakota has received on the average 25 per cent of her total revenue each year during the past three years from this source. Rent and interest is an important source of state government revenue in the west, north central and the mountain states, but South Dakota is the most favored state in the Union in this respect. Five per cent of this amount is in the form of rent of investment properties, and 20 per cent is received as interest on state funds. Interest and other income from school and public lands contribute approximately three-fourths of the total revenue under this general heading.

In 1889, Congress set aside certain lands in the State of South Dakota for educational and public building purposes. When this land is

sold the money is placed in various permanent funds to be kept intact —only the interest from such funds to be spent. The interest on these permanent funds is an important source of revenue for the state and is spent on educational, penal, and charitable institutions. Thus, there is a permanent fund built up from the proceeds received from the sale of land that was originally set aside for the support of the common schools of the state, the College of Agriculture and Mechanic Arts, the State University, the Normal Schools, and other educational and charitable institutions in the state.

The money derived from the sale of public and school lands is divided among organized counties of the state in proportion to population. The counties hold and manage such moneys as trust funds, investing it in first mortgages upon good improved farm land within the state, in bonds of school corporations within the state, or in bonds of the United States or of the State of South Dakota, or of any organized county, township, or incorporated city in the state. The interest on the permanent fund which is invested in these various ways, is apportioned to the common school districts and to the different state institutions upon the basis of school population.

South Dakota has benefitted by the experience of states farther east. Some of the land donated by the federal government in eastern states had been sold for less than two dollars per acre. Fortunately, there were those in South Dakota who fought to have these lands preserved. The state constitution declares that no land shall be sold for less than the appraised value and in no case, for less than ten dollars an acre. Further, that not more than one-third of the school lands were to be sold during the first five years, and not more than two-thirds during the first fifteen years after statehood. Owing largely to these provisions, there is now more than fourteen million dollars in the permanent school fund, and in addition, there are still two and three-fourths millions of acres of common school, public buildings, indemnity, and endowment land, in the state, unsold.

It might be of interest to define what is meant by indemnity land. Upon the admission of each state into the union, sections numbered 16 and 36, in every township, were granted to such state for the support of the common schools. In cases where this land was pre-empted or homesteaded, before the land was surveyed, or when such land was included within a military, Indian or other reservation, other lands were appropriated and granted for school purposes. The land so appropriated or granted in lieu of sections 16 and 36, is called indemnity land.

In addition to the income from the sale of school and public lands and interest on the permanent funds set up through their sale, further revenue is derived from the leasing or rental of such lands remaining unsold. Since the agricultural depression in 1920 and 1921, however, the income from this source has fallen off considerably. During the years 1920 to 1922, inclusive, many contracts involving the purchase of school and public land, were cancelled, and the title to the land has either been voluntarily surrendered or cancelled. This has naturally tended to decrease the amount of revenue derived from this source.

The remaining revenue under this general heading comes largely as interest on state sinking funds and public trust funds. A small proportion is also derived from interest on investment funds and investments, and on current deposits.

Income from Federal Aid.—Eleven per cent of the total state revenue is received from the federal government. According to the annual report of the State Auditor, the State of South Dakota received $1,895,777 from the federal government during the fiscal year ending June 30, 1926. Table IV gives the purposes for which this federal aid was granted in the state.

Table IV.—PURPOSE FOR WHICH FEDERAL AID WAS RECEIVED BY THE STATE OF SOUTH DAKOTA FOR THE FISCAL YEAR ENDING JUNE 30, 1926.

Purpose of Federal Aid	Amount Received by State	Per Cent of Total
Highways	$1,654,563	87.2
Land Grant Colleges	95,051	4.9
Co-operative Extension Work	66,176	3.5
Agricultural Experiment Stations	50,000	2.7
Welfare Work	29,924	1.6
Mineral Leasing	63	0.1
Total	$1,895,777	100.0

The federal government inaugurated a policy of federal aid to the state and local governments in the building and rebuilding of roads by passing the Federal Aid for Roads Act in 1916. The general idea of the act was that the federal government would match every dollar expended by the states in any sound project of road building. Under a new act, approved in 1921, called the Federal Highway Act, federal aid is now extended to two classes of highways—primary or interstate roads, and secondary or inter-county roads. Federal aid to highways is distributed by the federal government on the basis of population, area, and mileage of mail routes in the different states.

During the past fiscal year, 87.2 per cent of the total federal aid received by the state was for highways. Eighty-five and one-half per cent was received under the Federal Aid for Roads Act of 1916 and the Federal Highway Act of 1921. One and seven-tenths per cent was received under provisions in Chapter 192, Federal Code, 1908, which appropriates a certain amount each year for the benefit of public schools and roads in counties having lands belonging to the Federal Forest Reserve.

Under the Morrill and Smith-Hughes Acts, South Dakota State College of Agriculture and Mechanic Arts received last year $95,051, or 4.9 per cent of the total federal aid received by the state. The first Morrill Act was passed in 1862. It set aside certain public lands as an aid in establishing and supporting colleges for instruction in agriculture and mechanic arts. The Smith-Hughes Act of 1917 provides federal aid to high schools for the purpose of paying one-half the expense of instruction in agriculture; for instruction in home economics, agriculture and industries in state institutions, and for instruction in home economics, trades and industries, in local high schools.

The Smith-Lever Act of 1914 makes provision for co-operative extension work in the state. During the past year $66,176 was received from the federal government for this purpose. Extension work consti-

tutes the third most important purpose for which federal aid was received. Last year it amounted to 3.5 per cent of the total federal aid received.

Under the Hatch, Adams, and Purnell Acts, the Agricultural Experiment Station at Brookings received last year $50,000 or 2.7 per cent of the total federal aid received.

Under the provisions of the Hatch Act, which was passed in 1887, Congress appropriates $15,000 for each Agricultural Experiment Station in a state.

The Adams Act was passed by Congress in 1906. This Act gave to each state $5,000, with an increase of $2,000 annually for five years until the appropriation reached $15,000, for the support of Agricultural Experiment Stations.

The Purnell Act was passed by Congress in 1925, for the purpose of increasing the amount now appropriated by the federal government for experimental purposes under the Adams and Hatch funds. Last year, $20,000 was received by the state under the Purnell Act. This is to be increased $10,000 annually until the sum of $60,000 is reached.

The State received $29,924 as federal aid for welfare work last year. The Sheppard-Towner Act was passed in 1921. Under the provisions of this act, Congress appropriates money each year for the promotion of welfare work in connection with maternity and infant hygiene. Eleven thousand seven hundred dollars were granted to the Soldiers' Home at Hot Springs last year by the federal government. In 1920 the Industrial Rehabilitation Act was passed which offered federal aid to the states for vocational rehabilitation of disabled persons.

The Mineral Leasing Act of 1920 authorizes the Secretary of the Interior to lease lands owned by the U. S. Government which contains deposits of coal or other minerals. Thirty-seven and one-half per cent of the royalties or rentals so received are to be paid to the state in which such land is located. Federal aid received under this act amounted to only $63 in South Dakota last year.

The State of South Dakota receives two classes of federal aid. In the first place, there is that federal aid which is not conditioned upon a like contribution by the state. This includes federal support for the Agricultural Experiment Station at Brookings under the Hatch, Adams, and Purnell Acts, and the support of South Dakota State College of Agriculture and Mechanic Arts under the second Morrill Act of 1890, and the Nelson Amendment of 1908. This class of federal aid amounted to $144,624 or 7.7 per cent of the total federal aid received by the State of South Dakota last year.

In the second place, there is that class of federal aid which is conditioned upon the contribution of a like amount by each state that avails itself of this aid. It is commonly spoken of as the "fifty-fifty system". It includes the federal aid received under the Smith-Lever Act for cooperative agricultural extension work; that which is received under the Smith-Hughes Act for vocational education; and that received under the Federal Aid for Roads Act of 1916, and the Federal Highway Act of 1921, for highway construction. This is the more important class of federal aid and last year in the State of South Dakota it amounted to $1,751,153 or 92.3 per cent of the total federal aid received.

Income from Fees.—The fourth most important source of state revenue is that of departmental fees—or amounts collected as compensation for services rendered by state departments. Fees are to be distinguished from taxes. The latter are compulsory and are paid by the individual for general or common uses. Although the payment made does not bear any direct relation to the benefit conferred on the individual paying the tax, there is some relationship between the taxes paid and the benefit conferred collectively. Fees, on the other hand, are semi-compulsory. They are paid on the occasion of some specific activity, and there is some relationship between the amount of the fee and the cost of the service rendered, or of the benefit conferred upon the individual. Thus, fish and game license fees are among the more important fees fiscally. They are semi-compulsory; that is, if a person wishes to hunt or fish, he must obtain a license and pay the license fee. Thus, fees may be charged not only for fiscal reasons but for the purposes of protection to persons and property or for regulation. Of such character are business franchise fees and various license fees like peddlers' and dealers' license. Fees may also serve the purpose of development and conservation of natural resources. An example of such fees would be those paid to the Department of Agriculture for its various activities, such as oil inspection, hotel inspection and stock food inspection.

Corporations doing business in this state are required to pay charter fees ranging from $5 for corporations organized without capital stock to $300 for corporations with an authorized capital stock of over five million dollars. Foreign corporations with a capital stock of not in excess of $25,000 are also required to pay a fee of $25.50, for certificate of authority and appointment of agent to do business in this state. For each additional $1000 of capital stock in excess of $25,000, which is employed, foreign corporations are required to pay $1 more in fees. Foreign corporations are also required to file annual reports accompanied by a fee of $2.50.

Some of the state officers are largely on a self-supporting basis financially because of the fees charged. Such is the office of the Secretary of State. Among such fees are those paid by persons taking state office examinations for positions in such state departments as Banking and Finance, or Audits and Accounts. The income of this department also comes from various other fees of similar type.

Fees are becoming of less importance as a source of state revenue in South Dakota. During the past fiscal year, ending June 30, 1926, they contributed 6 per cent of the total state revenue. The tendency has been to give them up as a basis of payment to state officials and to use a fixed salary basis. In some cases, services for which fees used to be charged have been abolished, or are now rendered free. The question arises, however, whether there is not a field for both the salary and the fee method of payment for services rendered or benefits conferred.

Income from State **Enterprises and** Miscellaneous Sources.—During the past year, six per cent of the total revenue of the state came from miscellaneous sources and from state enterprises like the cement plant and the twine plant. Such enterprises are not always undertaken be-

cause of the revenue that can be derived from them. In fact, net revenue that is derived from some of these state enterprises is very small and may even constitute an expense to the state.

In addition to the twine and cement plants, there are state enterprises like the Rural Credit Board and Soldier's Land Settlement which have been greatly affected by the agricultural depression. The final outcome of these as to total losses by the state cannot be definitely determined at this time. With a return to more prosperous agricultural conditions, these may reflect a more wholesome condition than is now indicated.

All of the state business enterprises have been undertaken since 1919. They were undertaken just prior to or during a period of years when the industry with which they were all connected, directly or indirectly, was in a very unhealthy state. Individual viewpoints differ widely as to the merits of state operation of business enterprises, and the period during which these have been carried on is one in which it is difficult to judge of their desirability or undesirability. In general, it would seem that governments both state and national perform more successfully activities in the way of administration of justice, regulation, education, and supervision, and are less successful in operating business enterprises. Where state or community business enterprises are operated, it would seem that they should be set up as publicly owned business corporations with a definite capital stock and a separate non-political board of directors in order that, if they are unsuccessful, definite limits may be placed to the loss which the public may incur.

Sources of Local Revenue.—The state derives revenue from different sources, the most important of which is taxes. Of all taxes, general property tax and motor fuel tax return to the state treasury the most revenue. Important as property taxes are as a source of revenue for state purposes, they are more important for local purposes. For the years 1919 to 1923, inclusive, an average of 12 per cent of the total direct property taxes levied for all purposes in South Dakota went to the state, 28 per cent to the counties, 41 per cent to the school districts, 7 per cent to the townships, and 12 per cent to the towns and cities of the state. It will be noted that the most of the taxes paid on property go to local subdivisions like the county or school district, particularly the latter.

The tax that is paid on property may not be the best tax that could be imposed, but it does seem to be the best that has been developed so far for local purposes. A flexible source of revenue for local purposes is necessary to meet our ever changing needs. The amount of revenue that can be raised from the general property tax may be increased or decreased by increasing or decreasing the levy. Governments impose certain limitations at times upon the amount of the levy, but in general, property taxes respond fairly readily to our changing needs—more so than do such taxes as the income tax, the amount of revenue from which would be more dependent upon business conditions. The general property tax gives a steady flow of income and for that reason it has always been an important local tax. It can be justified, however, only on grounds of expediency, and not on its equity.

For the County.—In addition to the general property tax which is the bulwark of the system of local revenues in South Dakota, counties derive a small share of their revenue from poll and special taxes. For example, all male inhabitants in each county are subject to a road poll tax of $2.00 with the following exceptions: Men who are fifty years old or over; paupers; lunatics; volunteer firemen; soldiers and sailors in service; and members of the National Guard. The proceeds from the road poll tax are distributed back to the taxing district where the tax-payer lives and are credited to the road fund. There is also a tax of one dollar levied upon every resident of the county over 21 years of age for the support of the common schools. The proceeds from the school poll tax go to the school fund of the county and are distributed to the various school districts of the county according to the number of children of school age. There is a dog tax of one dollar levied on each dog in the county. There is also a bee tax of ten cents for every colony for the purpose of raising a fund to aid in the inspection of bees and to prevent disease among them.

Counties receive one-half of the proceeds of the Money and Credits tax. They also receive 48 per cent of the motor vehicle license taxes collected and 10 per cent of the inheritance tax money collected. Various kinds of fees also constitute a minor source of county revenue. The important point, however, is that the general property tax is the major source of revenue not only for the county, but also for other local subdivisions. This is in direct contrast with the state which derives its revenue from several important sources.

For the Township.—Revenue necessary to meet township charges is raised by making a levy on the taxable property in the township. On the last Tuesday in March of each year, or within ten days thereafter, the supervisors of each organized civil township meet together and determine what shall be the township levy on general property for the ensuing year. The township levy is sufficient for general purposes, township roads and bridges, fireguard, and for interest on any township bonds. Such a tax levy in civil townships must not exceed five mills on the dollar of the assessed valuation.

For the Municipality.—Although towns and cities in South Dakota also depend largely upon property taxes for revenue, they also make use of what is called the special assessment for defraying the cost of improvement to property. For example, part of the cost of paving streets, installing street lights, etc., is commonly met by making a special assessment against the property benefited—that is, of course, in addition to the property taxes that are paid.

Another source of revenue for cities and towns which is becoming more and more important is the revenue derived from public service enterprises—like the water supply of a town, the supply of heat and light, or the telephone service. But just as in the case of state enterprises, the motive for cities and towns undertaking these public service enterprises may not be for revenue only, but rather to supply needed services at a reasonable cost or to insure regulation or sanitation as in the case of a city's water supply.

The general property tax, special assessments, and public service enterprises, in the order named, constitute the major sources of revenue

for towns and cities in South Dakota. Of relatively little importance fiscally are fines, and the fees, charges, or other earnings of city departments.

For the School District.—During the period, 1919 to 1926, inclusive, rural town and city independent schools, and consolidated schools, derived on the average 70 per cent of their total revenue from general property taxes, 10 per cent from apportionment of school funds, 12 per cent from the sale of bonds, and the remaining 8 per cent from other sources such as state aid, school poll tax, fines, etc. Rural schools depend more largely upon general property taxes for revenue than other types of public schools. During the above period, rural schools derived 77 per cent of their total revenue in this way, whereas independent town and city schools, and consolidated schools, derived on the average, 66 per cent and 62 per cent, respectively. Independent and consolidated schools are, however, depending more and more upon the general property tax as a source of revenue.

Apportionment in the case of rural schools, and the sale of bonds, in the case of independent town and city schools, and consolidated schools, constituted the second most important source of public school revenue during the period. Rural schools derived, on the average, 14 per cent of their total revenue from interest and income from the permanent school fund. As already mentioned, the proceeds from the sale of school lands is put aside in what is known as the permanent common school fund. This fund is kept intact and the interest from it, and other such income from school lands, is apportioned by the state to the different common school districts on the basis of school population. The relative amount of revenue received in this way, not only by rural schools but by all types of schools, has been decreasing steadily since 1919 and there has been the tendency, as noted above, to put more dependence upon property taxes. Whereas rural schools received only 5 per cent of their total revenue, on the average for the period, from the sale of bonds, independent town and city schools received 15 per cent, and consolidated schools, 22 per cent, of their total revenue in this way. The revenue derived in this way was spent almost exclusively on new school buildings from 1920 to 1923, inclusive. Since 1921, however, independent and consolidated school districts, have been depending less and less upon the sale of bonds for revenue. Table 5 gives the relative importance of the various sources of revenue for public schools in South Dakota.

Table V.—THE RELATIVE IMPORTANCE OF THE VARIOUS SOURCES OF SCHOOL REVENUE AS EXPRESSED IN TERMS OF PER CENT OF TOTAL REVENUE, AND AS AN AVERAGE FOR THE PERIOD, 1919 TO 1926, INCLUSIVE

Type of School	District Property Tax	Apportion-ment	Sale of Bonds	Other Sources of Revenue	Total Per Cent
Rural	77	14	5	4	100
Independent	66	8	15	11	100
Consolidated	62	6	22	10	100
Average for all types	70	10	12	8	100

Included in "Other Sources" of revenue, is state aid. Since 1919, the state legislature has made an appropriation from the state's funds as aid to rural, independent, and consolidated schools. This money was divided among the schools in proportion to the acreage of indemnity and endowment lands owned by the state in each school district. In order to obtain this class of special aid, a public school must meet certain minimum standards. These standards are required by the state constitution, by the Department of Public Instruction, and by the State Board of Health. The state constitution requires that the school must be in session for at least nine months each year; that the school grounds must comprise at least one acre; and that the teacher must hold a first-grade certificate. The Department of Public Instruction and the State Board of Health, make certain requirements with regard to the school building, heating and ventilation, school room equipment, and minor necessary accessories.

The state legislature at its twentieth session in 1927 failed to appropriate money for state aid, except $80,000 for vocational education to meet federal funds for this purpose during the next biennium. There was also appropriated for the next biennium, $17,300 for rehabilitation and Americanization work, and $10,000 for Young Citizens' League work. Hence, state aid to rural schools has been discontinued for at least the next biennium. Although state aid contributed only approximately one per cent of the total public school revenue during those years in which it was effective, still it did a great deal to standardize schools, to raise their standards, to develop community pride, and to help needy but progressive school districts. If the work of standardization, and in general, the raising of the standards of public schools, is to continue, a greater dependence than ever must now be placed upon the district levy, or else new sources of school revenue must be developed.

School districts have also been receiving the proceeds from a school poll tax of one dollar which every elector is called upon to pay unless he is exempted by law. This tax is levied by the county, as mentioned above, but is distributed amongst the school districts in proportion to the number of children of school age. At the twentieth session of the state legislature, 1927, a law was passed which provides that this poll tax be levied upon every resident in the county over 21 years of age. That will mean more revenue for the public schools, because the new law includes people who have not become citizens of the state.

Public schools also receive a relatively small amount of revenue—about two-tenths of one per cent for the period, 1919 to 1926 inclusive—from the federal government for vocational education in agriculture, home economics, trades and industries, and in teacher training. The schools also receive the proceeds from all fines collected for violation of state laws. A small amount of school revenue also comes from sales of property and from insurance. As noted in Table IV, "Other Sources" of revenue contributed, on the average, only 8 per cent of the total public school revenue during the period from 1919 to 1926, inclusive.

General Property Tax.—According to the Bureau of the Census, United States Department of Commerce, the different state governments of the union received on the average 24.1 per cent of their revenue from general property taxes during the fiscal year ending June 30, 1926. During the same year, the state government of South Dakota derived 25.9 per cent of its revenue from general property taxes. The general property tax is not only the bulwark of the state system of revenue, but it is particularly important as a source of local revenue.

The general property tax is, as its name suggests, a tax upon the assessed valuation of all property. The theory lying behind the general property tax is that each property owner shall contribute to the support of government in proportion to the assessed value of property owned. All property—both real and personal—is subject to the tax unless it is by law exempted. The following property in South Dakota is exempt: All property owned by religious, educational, and charitable institutions and societies; all property, both real and personal, belonging to the United States, to the State of South Dakota, and to counties and municipal corporations; all property used exclusively for agricultural and horticultural societies, for schools, or for religious, cemetery, or charitable purposes. In addition to these, furniture and provisions are also exempt to the extent of $50 for each family.

The exemption laws of the state have caused a great deal of unfairness in the distribution of the tax burden. These laws have held that all property to which educational, charitable, benevolent, or religious institutions hold title is exempt from taxation, regardless of the amount or of the use to which the property is put. The principle of exempting certain property owned by such organizations is sound, provided such property is used directly for educational, charitable, benevolent, or religious purposes. In this state, however, these lands have in many cases been used for other purposes. This not only means that the taxable property must bear a heavier tax burden, but that those who use this exempt property for some form of activity other than educational, charitable, benevolent, or religious, have an unfair advantage over those who use taxable property for the same form of activity. It has been estimated that as much as 25 per cent of the total real estate valuation is exempt from taxation in some of the larger cities of the state. This means that owners of property subject to taxation in such cities must bear an unjust proportion of the tax levy. Senate Bill 28, passed by the South Dakota state legislature at its 20th session, 1927, has in view the solution of the exemption problem. This bill provides that all real and personal property of educational institutions in South Dakota shall be taxed the same as other property after July 1, 1929, if such property is farm lands, or improved town or city property, and is not occupied or directly used in the carrying out of the primary object of the educational, religious, or benevolent institution. Lands of educational institutions that have been obtained through foreclosures of endowment fund mortgages continue to be exempt for two years longer, or until the above law takes effect. The law further provides that all property belonging to any charitable, benevolent, or re-

ligious society shall be taxed as other property, in the same class, when such property consists of farm lands. The law exempts farm land to the minimum extent of eighty acres for building sites of such societies or institutions. When such property is used for other than charitable, benevolent, or religious purposes; for example, when it is used or owned primarily for purposes of revenue, it is taxed as other property. Moreover, if such property is partly occupied, rented, or used for other than charitable, benevolent, or religious purposes, it is taxed in proportion as the value of such part bears to the entire property.

Some states have the county unit form of assessment. South Dakota depends entirely upon local assessments made by township, town or city assessors. The local assessor is, no doubt, the most important official in the administration and operation of the general property tax. His work is of a primary nature and the accuracy with which he does it largely determines whether the tax burden shall be equable or not. During the months of May and June, local assessors go out and assess all property at "its true and actual value" as of May 1. This date does not refer to the time when the property is actually inspected, but rather it is a date fixed by statute for determining the existence, ownership, value, and liability to taxation of both real and personal property.

It was, no doubt, realized that the present system of local assessment in the state could not result in other than much unfair assessment. The local assessor's judgment as to what constitutes the "true and fair value" of any property is not infallible. Moreover, it is reasonable to assume that the personal factor would enter into the valuation placed upon properties owned by those with whom the assessor is personally acquainted. It would also seem very probable that the basis or standard of judging the valuation of property would differ to a greater or less extent as between different local assessors. Hence, there would be considerable inequality in the assessed valuation as between local districts.

The Legislature had this in mind when it provided for boards of review and equalization and a state tax commission or a state board of equalization. The local board of review is composed of the board of supervisors in the case of townships, the board of trustees in the case of incorporated towns, and the board of aldermen or commissioners in the case of cities. These local boards meet each year on the fourth Monday in June. They have various duties to perform, the most important of which are as follows: They must see that all property in that district has been listed by the local assessor; they are empowered to correct and equalize the assessment made by the local assessor; they also hear complaints of any person who may feel aggrieved at the valuation placed upon his property by the local assessor. The importance of the duties of these local boards cannot be over-emphasized. Next to the work of the local assessor himself, the duties of the local board of review are of primary importance. Both have or should have an intimate knowledge of local property values and between them really determine whether the principles of equity and justice shall obtain in the distribution of a tax based upon the assessed valuation they have placed upon property in their respective districts.

The county board of equalization is made up of the county commissioners in each county. They meet together each year on the first Tuesday in July. They, too, must see that all property is listed. Property not listed must be added after notifying the owner. After all property is listed, the main duty of the county boards is that of equalizing assessments as between the various taxing districts of the county. They have also the power to correct any gross inequalities in individual assessments. Property owners have the right of appeal to county boards of equalization if they consider that their property has been unjustly assessed. They must, however, first present their cases before the local board of review for relief.

The fourth agency that has to do with the administration and application of the general property tax is the State Tax Commission or State Board of Equalization, made up of the Secretary of Finance, the Director of Taxation, and the Assistant Director of Taxation. Among the duties of the state board is the equalization of the assessment of property among the counties. Acting in the capacity of a state tax commission, it administers the tax laws of the state and assesses all property of public service concerns like the railroads, express and telegraph companies, electric power transmission line, etc. Such property is usually employed in intercounty business and it seems logical that it should be assessed by a state agency rather than by the local assessor as formerly.

In this way a final equalized state valuation of all property subject to taxation is obtained. It is upon this final valuation that state tax levies are based. In a similar way, final equalized valuations of all property in the different counties and other political subdivisions are obtained and used as a base for county, township, school, and municipal levies. Table VI gives the per cent distribution of final values of all property by classes in the State of South Dakota for the years 1919 to 1926, inclusive.

Table VI.—THE PER CENT DISTRIBUTION OF FINAL VALUES OF ALL PROPERTY BY CLASSES IN THE STATE OF SOUTH DAKOTA FOR THE PERIOD, 1919 TO 1926, INCLUSIVE

	Real Estate				Personal Property			State Assessed	All Property	
Year	Farm Real Estate	City Real Estate	Mineral Land	Total Per Cent	Personal Property	Money and Credits	Total Per Cent	Public Utility Property	Total 000,000	Total Per Cent
1919	65.1	7.0	0.7	72.8	15.3	5.3	20.6	6.6	2,095	100.0
1920	68.5	6.9	0.7	76.2	13.3	4.6	17.9	5.9	2,258	100.0
1921	70.0	7.5	0.6	78.0	11.4	3.9	15.3	6.7	2,065	100.0
1922	70.6	7.7	0.6	79.0	10.8	3.3	14.1	6.9	1,977	100.0
1923	70.9	8.8	0.6	80.3	8.8	3.8	12.6	7.1	1,941	100.0
1924	69.6	8.7	0.6	79.0	10.2	3.8	14.0	7.0	1,876	100.0
1925	69.6	8.8	0.6	79.1	10.1	4.1	14.1	6.8	1,876	100.0
1926	69.0	9.1	0.6	78.7	10.0	4.1	14.1	7.2	1,805	100.0
Av. of all years	69.2	8.1	0.6	77.9	11.2	4.1	15.3	6.8		

Agricultural land naturally constitutes the major share of all property values in the state. For the above period, an average of 69.2 per cent of the final valuation of all property in the state was agricultural land, 8.1 per cent city real estate, and less than one per cent was mineral lands—a total of 77.9 per cent for real estate. Personal property, including money and credits, contributed on the average for the period 15.3 per cent, and state assessed public utility property 6.8 per cent of the final valuation of all property in the state. These relative percentages have remained fairly constant throughout the period. City real estate is the only class of property that has made a gain in valuation since the depression in 1921—the valuation in 1926 being 7.5 per cent greater than in 1921. Between these same years, the valuation of all property decreased 12½ per cent and that of agricultural land 13½ per cent. Personal property, other than money and credits, decreased in valuation 23.8 per cent between 1921 and 1926, and state assessed public utility property 4.9 per cent. The class of personal property called money and credits is taxed at a lower rate than is tangible property. For the years 1919 to 1923, inclusive, it was taxed at a flat rate of three mills on each dollar, and in 1924, 1925 and 1926, at four mills on the dollar.

The Levying of Taxes.—All tax jurisdictions, i.e., the state, the county, the township, the school district and the municipality—levy upon the asessed valuation of property at so many mills on the dollar. The size of the levy is sufficient to give an amount of revenue which, if added to that available from other sources, will yield the total amount of revenue required by the state or minor subdivision. Table VII shows the yearly state tax levies in mills for various purposes from 1919 to 1926, inclusive.

Table VII.—YEARLY STATE TAX LEVIES IN MILLS FOR VARIOUS PURPOSES IN THE STATE OF SOUTH DAKOTA FOR THE YEARS 1919 TO 1926, INCLUSIVE.

Year	Ordinary Expense	State Highway	State Bridge	State Highway Sinking	State Land Settlement Interest and Sinking	Internal Improvement Bonds	Soldiers' Compensation Bonds	Total
	Mills	Mills	Mills	Mills	Mills	Mills	Mills	Mills
1919	1.7	.1	-	.03	.02	--	--	1.85
1920	1.6	.1	-	.06	.02	--	--	1.78
1921	1.0	.1	.1	.35	.05	--	--	1.60
1922	.9	-	.1	.47	.06	.02	.35	1.90
1923	.9	-	.1	.51	.07	.12	.20	1.90
1924	1.3	-	.1	.52	.10	.10	.30	2.42
1925	1.5	-	.1	.61	.10	.10	.32	2.73
1926	1.5	-	.1	.61	.09	.10	.33	2.73

The levy for ordinary state expense covers not only the salaries and maintenance of state departments, but the support of all educational, penal, and charitable institutions maintained by the state. These three classes of institutions collectively require about 75 per cent of the levy

made for the ordinary running expenses of the state. The levy for ordinary expenses also covers an appropriation made for the aid of schools other than those maintained at state expense. The legal limitation to the levy for state ordinary expense is two mills for any year.

During the years 1919, 1920 and 1921 a state levy of one-tenth of one mill was made for state highway purposes. There is no longer such a levy. During the past six years, a one-tenth of one mill levy has been made for the purpose of establishing a State Bridge Fund. This fund was used to build five free highway bridges over the Missouri River. All of these bridges have been completed. In order to hasten construction, money was advanced to the State Bridge Fund by the State Highway Commission and by different counties and cities. Hence the Bridge Fund levy will be continued and as funds become available the money that has been advanced will be repaid.

Levies are also made to provide sinking fund for and pay interest on state highway bonds, land settlement bonds, cement plant bonds, and soldiers' compensation bonds. Prior to 1919 there were no such levies made.

The commissioners of each county meet once a year to determine what levy they must make to give them the revenue required over and above that which is available from other sources. The consolidated county levy is sufficient to provide for the salaries of county officials, for the construction of county roads and bridges, for protection to life and property, for care and support of the poor, for office equipment, etc. In a similar way, the township officers, the school district officers, and the officers of a municipality, meet once a year and make a levy sufficient to cover their estimated needs.

Collection of taxes.—Taxes are collected in any one of three ways. In the first place they are collected by voluntary payment. No formal notification that taxes are due is necessary to fix the liability of the person against whom they are assessed. All unpaid taxes become delinquent and draw interest and penalty on the first day of May of the year after which such taxes have been assessed. All taxes extended upon the tax list of the county are payable to the county treasurer.

In the second place, when the personal property of any one in the state has been assessed and the amount of taxes due on such property has not been paid, it is the duty of the county treasurer to cause such taxes to be collected by distress and sale. A distress warrant is delivered by the county treasurer to the sheriff of that county. This gives the sheriff authority to seize sufficient personal property of such person to pay the taxes due and any accrued penalties or costs.

Delinquent taxes on real estate may be collected by its seizure and sale. On the second Monday of December in each year, the county treasurer offers at public sale all such property which is liable for taxes of any description for the preceding year or years. No taxable property is exempt from sale for taxes.

Redemption.—In cases where the county has taken over property for taxes, the owner may redeem the sale at any time before a tax deed is issued, paying the amount of taxes with penalty and interest up to the date of redemption, and the costs of advertising and selling the same.

Any owner may also redeem property sold for taxes any time within two years after the date of such sale, under the following conditions: That statutory notice, like a tax deed or a deed of conveyance, is not yet given; and that he also pay the county treasurer the purchase price of such property and any accrued interest and costs; and that he also pay all taxes paid subsequent to the sale of such property. All real property that has been taken over by a county and which is not redeemed or assigned within two years from the date of sale becomes the property of that county.

Defects of the general property tax.—Local assessors are instructed to assess all property at its "true and actual value." There have been so relatively few sales of farm land in South Dakota during the past five years that this is a difficult task for them. During the spring of 1926, the writer interviewed several farm and city property owners in the representative counties included in this survey. He asked them all to place a valuation on their property. Some declared that it had "no value", others inquired as to what valuation was wanted—was it the valuation placed upon it by the local assessor? Was it the valuation based upon what the property would produce? Was it a valuation based upon what the owner could probably realize in a sale? Or was it a valuation based upon what they, the owners, really thought their property was worth? Some idea was obtained in these interviews of how difficult it is to put a valuation on property in the absence of sales to indicate the trend of property values. However, the local assessor is instructed to put a valuation on all property.

General property taxes are largely based on the initial assessment thus made by the local assessor. There are review and equalizing boards, it is true, but, although they may, by adding property to assessment lists, by decreasing some or increasing other individual assessments, and in other ways, aid in making the final assessment more fair, still their work is of secondary importance to that of the local assessor. Local assessors are elected each year by popular vote of the people, not necessarily because of their qualifications—their familiarity with property values, with tax laws, etc., but possibly because of personal popularity or of political connections. From the fact that township assessors are elected by popular vote and also because the assessment unit is relatively small in area, the personal factor is very likely to influence the valuation placed upon property. That some of the local assessors are not qualified by training or experience to make a fair valuation of property is evidenced by the lack of any consistent relationship between representative sale values of property and the assessed valuation placed upon such property. A study of representative sales of farm land showed that farms sometimes sold for more, sometimes for less, than they were assessed. Frequently the same farm was given the same assessed valuation year after year, in spite of a tendency in recent years for land values in the state to increase.

It would seem that a larger assessment unit might overcome some of these defects. The county unit, for example, would tend to eliminate the personal factor in the making of an assessment. It might be feasible for a county to employ a full time county assessor and to offer a salary

large enough to attract men well qualified to carry on the work. Certainly the work of the assessor will not grow less difficult. In the early years of the history of any state, the assessment of property is a comparatively easy task, but as property increases in value and quantity, and assumes many different forms, the work of the assessor becomes increasingly difficult.

In addition to the difficulty of putting a valuation on property in the absence of sales, and the defects likely to obtain in the local unit assessment, there is the lack of relationship between the taxes on property and the income from that property. In South Dakota, taxes on farm and city property have remained fairly stable since 1921, but income, particularly from farm property, has varied widely. Property taxes are flexible to the extent that they can be increased or decreased readily to meet changing local needs by simply increasing or decreasing the levy made. They are not flexible in so far as they have any very direct relation to the income from property—the fund out of which they must come. This feature is not, of course, wholly undesirable; as the cost of government does not vary as income does.

South Dakota is largely a one industry state—agriculture furnishes its only important sources of income. Direct taxes on property is the major source of revenue. Hence, property taxes have cut deeply into farm income in recent years when prices for agricultural products have been relatively low. In the absence of other major lines of industry, the burden cannot be shifted. In such years, it is natural to hear a great deal about the burden of taxation. It can be traced to the fact that property taxes are based upon the assessed valuation of property rather than upon the earning power of that property.

PROPERTY TAXES IN SOUTH DAKOTA AND THE ABILITY TO MEET THEM

TAXES IN RELATION TO NET INCOME

On farm real estate.—During the period, 1919 to 1926, inclusive, total direct taxes on farm property in five representative counties in South Dakota absorbed, on the average, 28 per cent of the net income from farm real estate. As already mentioned, these counties were Brookings, Hamlin, Day and Beadle, which are located east of the Missouri River; and Pennington county which is located west of the Missouri River. Although results show that taxes have been cutting deeply into the net rent from farm and city property, it should be remembered that the survey covers a period when, with the exception of the year 1919, farm income has been relatively low. Net income is defined as the gross cash or share rent less such items of cost to the owner as depreciation on buildings and fences, the owner's share of the twine, threshing and marketing costs, and any special charges paid by the owner such as insurance.

Table VIII gives the relation of general property taxes to net rent per acre on the farms selected for study. The average net rent per acre for the period was $2.43, and the average total tax was 69 cents per acre. The most favorable year for the farmer was in 1919 when the net rent per acre was $3.79, and the tax per acre was 61 cents, or 16 per cent of the net rent. Taxes on farm real estate in South Dakota were at a

Table VIII.—GENERAL PROPERTY TAXES COMPARED WITH NET RENT PER ACRE ON FARMS IN FIVE REPRESENTATIVE COUNTIES IN SOUTH DAKOTA—1919-1926.

	Year	Number of Farms	Number of Acres	Net Rent Per Acre Before Deducting Taxes	Tax Per Acre	Per Cent of Net Rent Paid In Taxes (Before Deducting Taxes)
Brookings County	1919	19	4,300	6.25	.82	13.1
	1920	19	3,963	2.62	.94	35.9
	1921	19	4,163	1.96	.98	50.0
	1922	19	4,158	2.31	.93	40.3
	1923	21	4,918	2.98	.87	29.2
	1924	22	5,155	4.61	.96	20.8
	1925	30	6,712	3.33	.80	24.0
	1926	30	6,703	2.69	.83	30.8
8-year average				3.34	.89	26.6
Beadle County	1919	36	8,784	5.54	.73	13.2
	1920	31	7,907	1.92	.92	47.9
	1921	31	7,907	1.61	.81	50.3
	1922	31	7,907	2.37	.90	38.0
	1923	31	7,907	2.77	.77	27.8
	1924	40	9,502	3.54	.79	22.3
	1925	35	8,435	2.76	.79	28.6
	1926	35	8,435	1.78	.82	46.1
8-year average				2.79	.82	29.4
Day County	1919	44	10,218	3.57	.72	20.2
	1920	39	8,792	1.51	.81	53.6
	1921	43	9,738	.60	.72	120.0
	1922	41	9,274	1.33	.70	52.6
	1923	41	9,630	1.79	.69	38.6
	1924	48	11,541	2.56	.70	27.3
	1925	48	11,541	2.29	.74	32.3
	1926	26	4,628	0.89	.72	80.9
8-year average				1.82	.73	40.1
Hamlin County	1919	52	11,902	3.11	.70	22.5
	1920	18	3,893	2.32	.90	38.8
	1921	19	4,133	2.18	.88	40.4
	1922	20	4,373	2.04	.87	42.7
	1923	20	4,133	2.14	.80	37.4
	1924	53	12,222	3.38	.82	24.3
	1925	31	6,080	5.88	.87	14.8
	1926	31	6,080	4.75	.81	17.1
8-year average				3.23	.83	25.7
Pennington County	1919	27	24,862	0.50	.08	16.0
	1920	20	23,262	0.44	.15	34.1
	1921	20	23,262	0.15	.17	113.3
	1922	20	23,262	0.34	.16	47.1
	1923	20	23,262	0.35	.16	45.7
	1924	29	25,829	2.57	.19	7.4
	1925	20	12,208	1.55	.38	24.5
	1926	20	12,208	1.78	.36	20.2
8-year average				0.96	.21	21.9
Summary of the Five Counties	1919	178	60,066	3.79	.61	16.1
	1920	127	47,817	1.76	.74	42.0
	1921	132	49,203	1.30	.71	54.6
	1922	132	48,974	1.68	.71	42.3
	1923	133	49,850	2.01	.66	32.8
	1924	192	64,249	3.33	.69	20.7
	1925	164	44,976	3.16	.72	22.8
	1926	142	38,054	2.38	.71	29.8
8-year average				2.43	.69	28.4

peak in 1920 at 74 cents per acre, but it was not until the following year that the tax burden was heaviest. Due largely to falling prices for farm products net rent per acre had decreased to a low for the period of $1.30 per acre, or a decrease of 66 per cent from the net rent per acre in 1919. Taxes, on the other hand, were 71 cents per acre in 1921, an increase of 16 per cent over what they were in 1919. For this reason, taxes absorbed as much as 55 per cent of the net rent in 1921.

Taxes expressed in percentage of net rent decreased from 1921 to 1924. Drought, hail, and other adverse weather conditions resulted in poor crops in 1925 and 1926, particularly in the latter year. This, together with the relatively low prices the farmers received for what they had to sell resulted in a decrease in the average net rent per acre in 1925 over that of 1924, and a marked decrease again in 1926. A decreased net rent and a higher tax per acre during these two years made for a higher ratio of taxes in relation to net rent. In 1925 taxes absorbed 23 per cent of the net rent, and in 1926 as much as 30 per cent.

With the exception of Pennington County, the ratio of taxes to net rent on farm land was the most favorable for the farmer in 1919, and the most unfavorable in 1921. On the average, rents on farm lands decreased from 1919 to 1921, increased from 1922 to 1924, and decreased again in 1925 and 1926, particularly in the latter year. On the other hand, taxes per acre on farm real estate have remained fairly stable during the period, except for the marked increase in 1920 over what they were in 1919. Taxes on both farm and city property have apparently become stabilized at the higher post-war level.

In 1921, taxes absorbed more than the net rent from representative farms in Day and Pennington Counties. This was largely due to drought and hail. Again in 1926, taxes took, on the average, 81 per cent of the net rent from representative farms in Day County. This was again largely due to drought conditions. Some of the crops that year in Day County were not even harvested. The greatest variation in the ratio of taxes to net rent was found in Pennington County. In 1924, taxes absorbed, on the average, 7 per cent of the net rent, whereas in 1921, as mentioned above, taxes took more than the net rent from the farms selected for study.

Taxes in Relation to Net Rent on City Real Estate.—During the period 1919 to 1926, inclusive, taxes on city real estate absorbed on the average 29 per cent of the net rent. Just as in the case of farm property the lowest ratio of taxes to net rent was in 1919, when taxes took 23 per cent of the net rent. Taxes expressed in percentage of net rent increased from 23 per cent in 1919 to 29 per cent in 1920, and to a high for the period of 32 per cent in 1921.

Table IX shows that since 1922 the ratio of taxes to net rent on city real estate has become more and more favorable. In 1926 taxes absorbed, on the average, 28 per cent of the net rent. Taxes expressed in percentage of net rent did not vary as widely in the case of city property as for farm property. Most of the farms included in the survey are rented on a share basis, and the owner's share will, of course, depend upon what is grown, how much is grown, and the price that is received.

Table IX.—TOTAL TAXES ON RENTED CITY REAL ESTATE COMPARED WITH NET RENT IN FIVE REPRESENTATIVE COUNTIES IN SOUTH DAKOTA—1919-1926

	Year	Number of Properties	Total net rent (before deducting taxes)	Total taxes (city taxes included)	Per cent of net rent paid in taxes (before deducting taxes)
	1919	23	8773	2002	22.8
	1920	26	8731	2718	31.1
	1921	26	9493	3118	32.9
Brookings County	1922	26	9584	2926	30.5
	1923	26	8292	3298	39.8
	1924	28	10052	3027	30.1
	1925	38	11937	3407	28.5
	1926	38	12161	3674	30.2
8-year average					30.6
	1919	29	13692	3658	26.7
	1920	23	7752	2294	29.6
	1921	23	7565	2396	31.7
Beadle County	1922	23	8209	2452	29.9
	1923	23	8499	2189	25.8
	1924	31	17863	4536	25.4
	1925	31	9275	2470	26.6
	1926	31	9275	2577	27.8
8-year average					27.5
	1919	47	12121	2695	22.2
	1920	47	12381	3378	27.3
	1921	47	12874	3757	29.2
Day County	1922	47	13017	4063	31.2
	1923	47	13330	3774	28.3
	1924	47	13100	3522	26.9
	1925	47	12250	3606	29.4
	1926	26	13243	2892	21.8
8-year average					27.1
	1919	62	13234	3084	23.4
	1920	62	14259	4369	30.6
	1921	62	14072	4670	33.2
Hamlin County	1922	62	12062	4279	35.5
	1923	62	15775	4514	28.6
	1924	62	11586	4038	34.9
	1925	26	5129	1690	32.9
	1926	26	5129	1814	35.4
8-year average					31.2
	1919	37	19046	3927	20.6
	1920	35	18828	5462	29.0
	1921	35	19340	6391	33.0
Pennington County	1922	35	21026	6067	28.9
	1923	35	21143	6582	31.1
	1924	45	24173	7806	32.3
	1925	30	17639	5478	31.1
	1926	30	18179	5431	29.9
8-year average					29.6
	1919	198	66866	15371	23.0
	1920	193	61951	18212	29.4
	1921	193	63344	20332	32.1
Summary of the Five Counties	1922	193	63898	19787	31.0
	1923	193	67039	20357	30.4
	1924	213	76774	22929	29.9
	1925	172	56230	16651	29.6
	1926	151	57987	16388	28.3
8-year average					29.2

City property is almost invariably rented for cash, which makes for a more stable income to the owner. This, of course, makes for a more stable relationship between taxes and the fund out of which taxes are paid in the case of city property.

An analysis by counties of the ratio between taxes and the net rent from city real estate as found in Table IX shows no uniformity in the share of net rent that was taken by taxes in any year in all counties. The share taken varied both by years and by counties, although 1919 was, in general, the most favorable year of the period for the city real estate owner.

In Table X taxes for general city purposes are not included as a more comparable relation between taxes and the net rent on both farm and city real estate is desired. The state and county tax levy is the same for both farm and city property, but the city has expenses for which there are no counterparts in the rural districts. Fire and police protection, city parks, street lighting, running water, etc.—all make for a comparatively high city levy.

Total direct taxes other than city taxes absorbed on the average 19 per cent of the net rent for the period, 1919 to 1926, inclusive. Again, it was found that 1919 was the most favorable year for the city property owner, and 1921 was the most unfavorable. Taxes other than city taxes on city property expressed in percentage of net rent increased from 14.5 per cent in 1919 to 19.3 per cent in 1920, and to a high for the period of 20.2 per cent in 1921. Since 1921, however, taxes have varied but little any year from the average of 19.0 per cent for the period. The wide variation of taxes in relation to net rent found in the case of farm property is not found in the case of city property.

Taxes in Relation to Wealth.—The most commonly accepted measures of ability to pay taxes are wealth and income. If the wealth and income of society or of an individual is increasing as rapidly as public expenditures, then no additional burden will be felt. The relationship between taxes and net rent has already been analyzed for the purpose of ascertaining the ability of property owners to meet their taxes. The relationship between taxes and wealth production in the state will now be analyzed—the latter being considered a good index of earning power and the ability to meet taxes. The State Department of History has compiled such a series of wealth production figures. In connection with these figures the Superintendent of the Department of History, has this to say: "In compiling the value of production for our annual review, we get reports from the nine railroads operating in the state, and figure the value on the basis of the farm prices in December of the previous year. Mineral production is based upon the report of the Mine Inspector. The other figures are estimated and are based on the Federal Census for 1920." Figure 3 gives in graphic form the production of wealth, the direct taxes paid, and the population of South Dakota from 1900 to 1925.

NOTE:—To the reader unfamiliar with conditions in South Dakota during 1926, the very great change in net rent per acre between 1925 and 1926 may appear to be due to the smaller sample taken. Such is not the case, however. This area suffered a drouth in 1926 such as had not been equalled in severity since 1894. This, of course, affected tremendously the income from these farms. Critical analysis of the records indicate that the samples are comparable even though that for 1926 was smaller.

Table X.—TAXES OTHER THAN CITY TAXES COMPARED WITH NET INCOMES FROM RENTED CITY REAL ESTATE IN FIVE REPRESENTATIVE COUNTIES IN SOUTH DAKOTA—1919-1926.

	Year	Number of Properties	Total Net Rent (before deducting taxes)	Total taxes (city taxes excluded)	Per cent of net rent paid in taxes (before deducting taxes)
Brookings County	1919	23	8773	1377	15.7
	1920	26	8731	1766	20.2
	1921	26	9493	2213	23.3
	1922	26	9584	1847	19.3
	1923	26	8292	2183	26.3
	1924	28	10052	1765	17.6
	1925	38	11937	2200	18.4
	1926	38	12161	2490	20.5
8-year average					20.0
Beadle County	1919	29	13692	2078	15.2
	1920	23	7752	1508	19.5
	1921	23	7565	1283	17.0
	1922	23	8209	1576	19.2
	1923	23	8499	1174	13.8
	1924	31	17863	2652	14.9
	1925	31	9275	1440	15.5
	1926	31	9275	1499	16.2
8-year average					16.1
Day County	1919	47	12121	1929	15.9
	1920	47	12381	2399	19.4
	1921	47	12874	2809	21.8
	1922	47	13017	2918	22.4
	1923	47	13330	2633	19.8
	1924	47	13100	2594	19.8
	1924	47	12250	2698	22.0
	1926	26	13243	2187	16.5
8-year average					19.7
Hamlin County	1919	62	13234	1890	14.3
	1920	62	14259	2631	18.5
	1921	62	14072	2455	17.5
	1922	62	12062	2197	18.2
	1923	62	15775	2311	14.7
	1924	62	11586	2073	17.9
	1925	26	5129	895	17.4
	1926	26	5129	998	19.5
8-year average					16.9
Pennington County	1919	37	19046	2395	12.6
	1920	35	18828	3664	19.5
	1921	35	19340	4009	20.7
	1922	35	21026	4308	20.5
	1923	35	21143	4699	22.2
	1924	45	24173	5574	23.1
	1925	30	17639	3860	21.9
	1926	30	18179	3837	21.1
8-year average					20.3
Summary of the Five Counties	1910	198	66866	9669	14.5
	1920	193	61951	11968	19.3
	1921	193	63344	12769	20.2
	1922	193	63874	12846	20.1
	1923	193	67039	13000	19.4
	1924	213	76774	14658	19.1
	1925	172	56230	11093	19.7
	1926	151	57987	11011	19.0
8-year average					19.0

Wealth production rather than wealth (developed and undeveloped natural resources, property, etc.) was selected as an index of tax-paying ability. According to the Bureau of the Census, U. S. Department of Commerce, there was but one other state in the Union in 1922 that had

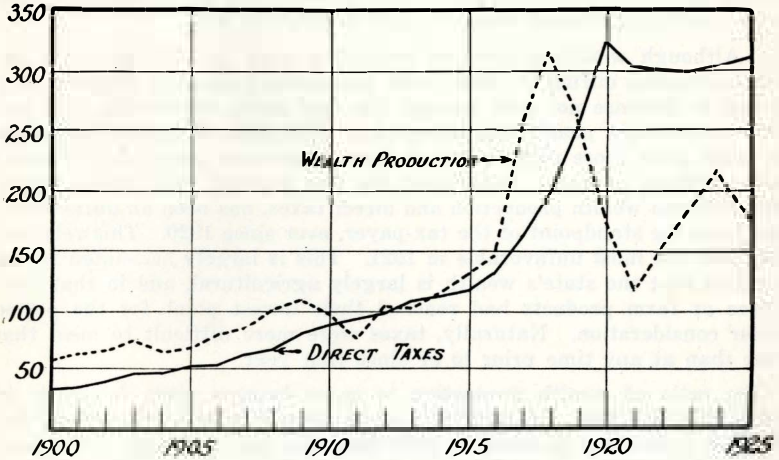

Fig. 3.—Indices of wealth production and direct taxes in South Dakota, 1900-1925. 1900-1914(inclusive) equals 100.

a per capita estimated value of all property greater than that of South Dakota. That state was Nevada. South Dakota's estimated value of all property in that year was $4,204 per capita, as compared with an average of $2,731 for all states. If that were taken as an index of tax-paying ability, then with the exception of the tax payers in Nevada, those in South Dakota were more favorably situated in that year than any others in the Union. As a matter of fact, the tax-payers of South Dakota found their taxes difficult to meet in 1922, chiefly because of the relatively low prices they received for their agricultural products. Wealth does not constitute ability to pay taxes until through the medium of sale and price, it is converted into a fund from which taxes may be paid. Therefore, a composite index of wealth production and price is considered to give a truer picture of tax-paying ability.

An index of wealth production can at best indicate only in a general way tax-paying ability. It gives no definite measure of that ability. Indices of wealth production and total direct taxes in South Dakota from 1900 to 1925, inclusive, have been constructed with the five pre-war years, 1910 to 1914, inclusive, used as a base. Figure 3 shows that prior to and during the war, with the exception of the two years, 1911 to 1913, the relationship between wealth production and direct taxes has been a favorable one from the standpoint of the taxpayer. Direct taxes were increasing during these years, but wealth production was increasing at approximately the same rate, and therefore, no additional burden was

felt. During the latter years of the war, from 1916 to 1918, inclusive, wealth production bore an even more favorable relationship to taxes. This was largely because the abnormal demand and high prices stimulated production and particularly agricultural production. Hence, although public expenditures increased very rapidly during the war years, wealth production as expressed in both quantity and price, increased even more rapidly, and taxes were no more difficult to meet.

Although wealth production reached a peak in 1918 and then decreased rapidly during the next three years, direct taxes on property continued to increase not only through the war years, but during 1919 and 1920—reaching a peak in the latter year. The ratio of wealth production to taxes grew more unfavorable in these latter two years making taxes more difficult to meet. In terms of the five pre-war years, the relationship between wealth production and direct taxes, has been an unfavorable one from the standpoint of the tax-payer, ever since 1920. This relationship was the most unfavorable in 1921. This is largely accounted for by the fact that the state's wealth is largely agricultural, and in that year prices of farm products had reached their lowest point for the period under consideration. Naturally, taxes were more difficult to meet that year than at any time prior to or since that year.

The ratio of wealth production to taxes became more favorable in 1922, 1923, and 1924, due largely to an increase in wealth production. Except for a decrease in taxes in 1920 from the year previous, taxes have remained fairly stable at a higher post-war level. The relationship between wealth production and taxes again grew unfavorable from the standpoint of the taxpayer in 1925 and 1926 because of a marked falling off in agricultural production and a relatively small increase in direct taxes. This made taxes more difficult to meet, particularly in the latter year. In connection with the high post-war level of taxes, it is well to remember that the state enterprises—soldiers' land settlement and soldiers' compensation, have been undertaken since the war period. Moreover, an extensive program of state highways and bridges, and of county roads and bridges, has been undertaken since the war years. Finally, much needed building like schools and court houses, delayed as a result of the war, has been done in the past seven or eight years. This in itself would largely account for the higher post-war level of taxes.

PUBLIC EXPENDITURES

State Expenditures.—The Bureau of the Census, U. S. Department Commerce, publishes each year an analysis of the governmental-cost payments of each of the state governments. As defined by the Bureau of the Census, governmental-cost payments include "all costs of state governments, consisting of the costs of the services employed, properties constructed, purchased, or rented, public improvements constructed or otherwise acquired, materials utilized, and interest on borrowed moneys, which are incurred for administering the general government, protecting person, property, and health, providing social necessities, and conveniences, caring for the dependent and delinquent classes, and performing other services and carrying on other activities for which those govern-

ments have authority." Governmental-costs are met by revenues derived from various sources. In South Dakota, state revenue is derived from taxation, from rent and interest, from the federal government, from fees, and from state enterprises and miscellaneous sources. The public expenditures that are met by direct taxation concern us more, of course, and will be discussed in some detail below. State expenditures, regardless of the source from which money is derived to defray these expenditures, will, however, be discussed first.

During the fiscal year ending June 30, 1926, the Bureau of the Census in Washington reports that the state government of South Dakota cost $18,789,502, or $27.43 per capita. There is but one other year when governmental-cost payments were greater. In 1922, the per capita cost of state government was $27.92. In 1926, the per capita cost of state government in South Dakota was exceeded by only three other states—Nevada, Delaware, and Wyoming. Per capita governmental-costs in these states were $50.61, $31.14, and $28.47, respectively.

In so far as the revenue necessary to cover the relatively high per capita costs of state government comes from sources other than from direct taxes, the burden is not felt to such a great extent. The State of South Dakota, as already mentioned, derives much of its revenue from school and public lands, from the federal government, and from sources other than direct taxes. Therefore, the relatively high per capita cost of state government falls less heavily upon the people of the state. Property taxes are commonly regarded as the only direct taxes paid and a relatively small proportion of them goes to the state. In 1925, only $14.70 out of every $100 paid in taxes on both farm and city property, went to the state. The proportion of the total direct taxes paid that go to the state vary as between farm and city property. Out of every $100 paid in taxes on farm property in South Dakota, $15.90, on the average, goes to the state; out of every $100 paid as taxes on city property, only $5.50, on the average, goes to the state. Thus, it is seen that a relatively small share of the total governmental-costs of the state are defrayed from direct taxes on property.

The Bureau of the Census discusses these governmental-cost payments under different classifications. The costs of state government are divided into three classes—expense, interest, and outlays. Expenses are largely for salaries, and maintenance of state institutions and state departments. They include not only the expenses of the general departments but also of public service enterprises. During the past fiscal year the expenses of running the state government were $14.61 per capita or 53 per cent of the total governmental-cost payments. During the same year, capital outlays amounted to $7.83 per capita, or 29 per cent of total governmental-cost payments. These capital outlays were largely for highway construction—almost 80 per cent—and to a less extent for public buildings, parks, etc. Per capita interest costs are relatively high in South Dakota. During the past year, interest on the state's indebtedness cost each man, woman and child in the state on the average $4.99 as compared with an average of 66 cents for all states combined. Per capita interest costs are high in South Dakota and help in a very material way to make the total per capita cost of state government high as compared with other states.

The Bureau of the Census discusses departmental expenses and outlays in considerable detail. It is pointed out by the Bureau that during the fiscal year ending June 30, 1926, the state spent $8.12 per capita for state highways. This amounts to 29 per cent of all governmental-costs for that year and includes expenses of the Highway Commission, maintenance and construction of the state highways, and interest on the state highway bonds. State governmental-costs for highways have exceeded those for all other purposes since 1921. The money that is spent for highways is largely for construction although maintenance costs are constantly increasing. During the past three fiscal years an average of 96 per cent of the money expended each year on state highways went for construction and maintenance. The expense of maintaining the state's highways is becoming more and more significant. During the fiscal year ending June 30, 1924, maintenance of the state's highways took only five per cent of the total highway revenue; by 1925, maintenance had increased to 12½ per cent; and by 1926, as much as 19½ per cent of the total highway revenue was spent in this way. In its annual report for 1926, the State Highway Commission estimates that maintenance will now require approximately 30 per cent of the total highway revenue from all sources.

There has been a relative decrease in the amount expended for highway construction since 1922. In that year, 94½ per cent of the total amount expended on the state highway system was for construction. During the fiscal year ending June 30, 1926, 77 per cent of the total highway expenditures were for construction. Maintenance is carried on by the patrol system, averaging one patrolman to approximately nine miles. The patrolmen are county employees, but under the supervision of the State Highway Commission and are paid from state highway funds. During the fiscal year, 1926, 2207 miles of gravelled road were maintained at an average cost of $223.45 per mile; 2107 miles of earth grade road were maintained at an average cost of $97.55 per mile. The total mileage maintained is now 4314 miles.

Money spent for road marking, park construction, and tools and machinery, took less than one per cent of the total money expended on state highways in 1926. South Dakota's highways are well marked with signs indicating directions, mileage, curves, railroad crossings, etc. These signs do a great deal to facilitate travelling for those not familiar with the highways of the state. The money expended for road construction in the State Park was for the fire trails not included in the state system of highways. The remaining 3 per cent of the total money expended on state highways in 1926, went for overhead expense, which includes such items as commissioners', engineers' and assistants' salaries and expense, office employees, supplies, etc.

The expenditures and revenues for state highway purposes in South Dakota are given in Table XI. The points of particular significance are as follows: The increasing fiscal importance of the motor fuel tax as a source of state revenue—increasing from 3½ per cent of the total state highway revenue in 1923, to 39 per cent in 1926. During the three years, 1924, 1925, and 1926, the motor vehicle registration tax, the motor fuel tax, and federal aid, have contributed on the average, approximately

Table XI.—EXPENDITURES FOR STATE HIGHWAY PURPOSES IN SOUTH DAKOTA, 1919-1926

Year	Highway Construction	Per Cent of Total	Maintenance	Per Cent of Total	Road Marking	Per Cent of Total	Park Construction	Per Cent of Total	Tools and Machinery	Per Cent of Total	Overhead	Per Cent of Total	Total Expenditures	Total Per Cent
1919	35,280	64.9	-------	---	------	--	-------	---	------	--	19,074	35.1	54,354	100.0
1920	727,930	79.1	-------	---	------	--	120,206	13.1	5,784	0.6	65,577	7.2	919,497	100.0
1921	3,627,106	90.6	-------	---	------	--	233,758	6.0	30,297	0.7	105,267	2.7	4,001,398	100.0
1922	3,333,870	94.5	-------	---	2,432	0.1	56,416	1.6	11,286	0.3	123,150	3.5	3,527,154	100.0
1923	2,024,336	92.7	-------	---	14,077	0.7	28,792	1.3	2,605	0.1	114,272	5.2	2,184,082	100.0
1924	4,829,478	91.3	278,216	5.3	13,769	0.2	17,520	0.3	15,280	0.3	136,165	2.6	5,290,428	100.0
1925	4,559,531	83.6	689,895	12.7	11,037	0.2	17,699	0.3	40,408	0.7	135,220	2.5	5,453,791	100.0
1926	3,741,430	77.1	944,550	19.5	10,839	0.2	7,035	0.1	4,913	0.1	139,925	3.0	4,848,691	100.0

REVENUE RECEIVED FOR STATE HIGHWAY PURPOSES IN SOUTH DAKOTA—1919-1926

Year	Sale of Bonds	Per Cent of Total	General Appropriation	Per Cent of Total	Motor Vehicle Registration	Per Cent of Total	Motor Fuel Tax	Per Cent of Total	Motor Carrier Gross Earning Tax	Per Cent of Total	U. S. Federal Aid	Per Cent of Total	General Property Tax	Per Cent of Total	Misc. Revenue	Per Cent of Total	Borrowed Funds	Per Cent of Total	Total Revenue	Total Per Cent
1919	-------	---	------	---	-------	---	-------	---	-----	--	1,200	0.8	143,424	99.2	-----	---	-----	--	144,624	100.0
1920	252,920	26.1	343,175	35.5	-------	---	-------	---	-----	--	188,907	19.5	182,682	18.9	-----	---	-----	--	967,688	100.0
1921	3,613,052	74.7	331,440	6.8	-------	---	-------	---	-----	--	707,406	14.6	187,290	3.9	-----	---	-----	--	4,839,190	100.0
1922	2,025,597	50.2	------	---	-------	---	146,090	3.6	-----	--	1,670,115	41.4	150,392	3.7	45,230	1.1	-----	--	4,037,426	100.0
1923	-------	---	------	---	1,055,175	38.1	353,749	12.8	-----	--	1,177,629	42.5	114,460	4.1	68,806	2.5	-----	--	2,769,822	100.0
1924	-------	---	------	---	1,564,907	35.0	918,852	20.6	2,941	0.1	1,933,741	43.2	5,965	0.1	45,112	1.0	-----	--	4,471,521	100.0
1925	-------	---	------	---	1,207,209	24.5	1,272,174	25.8	6,762	0.1	2,067,106	41.9	2,605	0.1	27,510	0.5	350000	7.1	4,933,369	100.0
1926	-------	---	------	---	1,279,375	25.5	1,957,495	39.0	22,687	0.5	1,621,702	32.3	1,864	0.1	81,399	1.6	50000	1.0	5,014,523	100.0

Source: Annual Report of the South Dakota Highway Commission.

95 per cent of the total state highway revenue. There is no longer a property tax levied for general state highway purposes. The relatively small amount of revenue from general property taxes noted in Table XI is due to payments of old delinquent taxes being collected. The marked increase in the amount of money expended for maintenance of state highways should also be noted. The State Highway Commission estimates that the constructed portion of the State Trunk Highway System already represents an investment of about 23 million dollars. The expense of maintaining that system is increasing rapidly.

Education ranks second in costs of state government with $6.06 per capita. This includes the money spent for salaries and maintenance of state educational institutions, for the support of such board and allied departments as the Board of Regents, and for the Superintendent of Public Instruction. It also includes state aid and other apportionments that are made by the state to the common schools. Twenty-two per cent of the total governmental-costs of the state were incurred for education during the fiscal year ending June 30, 1926.

Enterprises or branches of state service which have been established and are maintained by the state, cost $4.78 per capita last year. The largest item of cost was for interest on the bonds of these state enterprises like the cement plant, land settlement, and rural credit. The cost of administering these state enterprises makes up the second and about the only other cost element here, amounting to a little over $1.00 per capita.

General government, which is sometimes regarded as a major cost, ranks fourth with $2.94 per capita. Included in state government costs are the salaries, expenses and maintenance of state constitutional officers and appointive departments. During the fiscal year ending June 30, 1926, salaries took approximately 45 per cent, expenses 30 per cent, and maintenance and miscellaneous state expenditures took 25 per cent of the money spent on state government. Table XII gives a list of the various officers, departments, boards and commissions of the state government and the approximate cost of each as shown by the warrants issued by the state auditor, during the fiscal year ending June 30, 1926. Warrants issued do not alway measure the cost of state government, as in the case of state enterprises, but it is believed they give a fairly true measure of the cost of government officers and departments. In connection with the seemingly large proportion of total that goes to the Departments of Finance and Agriculture, it is well to point out that in 1925, there was consolidated in these two departments, twenty-seven former state departments, boards, commissions and agencies, to which reference will again be made.

A further $2.16 per capita was spent by the state government for charities, hospitals, and institutions of correction like the state penitentiary. This money is largely spent for salaries and maintenance in such institutions as the Hospital for the Insane, the School for the Deaf, the South Dakota School for the Blind, and the State School and Home for Feeble Minded. Interest on soldiers' bonus bonds and outlays for charitable and penal institutions have been included, but as already men-

Table XII.—COST OF STATE GOVERNMENT IN SOUTH DAKOTA DURING THE FISCAL YEAR ENDING JUNE 30, 1926.

	Amount	Per Cent of Total
Governor	$ 11,227	1.2
Secretary of State	13,474	1.4
State Auditor	17,977	1.9
State Treasurer	19,102	2.0
Attorney General	33,856	3.6
Commissioner of School and Public Lands	28,687	3.0
Superintendent of Public Instruction	37,038	3.9
Board of Railroad Commissioners	52,506	5.5
Supreme Court	57,882	6.1
Circuit Courts	86,578	9.1
Department of Finance	128,920	13.7
Department of Agriculture	130,024	13.7
Adjutant General	39,596	4.2
Banking and Finance	39,624	4.2
Board of Health	48,779	5.1
Custer State Park	69,917	7.4
State Sheriff	41,699	4.4
State Fair Board	25,256	2.7
Other	65,444	6.9
Total	947,586	100.0

tioned, salaries and maintenance of these institutions are the more significant items of cost.

These are the most important purposes for which governmental-costs have been incurred. Only brief mention will be made of the other purposes for which the state spends money. Last year the state spent $1.10 per capita for the development and conservation of its natural resources. This includes the money the state spends on Extension Service, Experiment Stations, and Agricultural Associations. It also includes the money spent on fish and game resources.

The state spent 56 cents per capita in 1926 in giving protection to persons and property—state police; in employing fish and game wardens; on the regulation of financial institutions, insurance companies, public service and other corporations; for the regulation of the sale of oil and gas; and for prohibition enforcement.

The state spent a further 58 cents per capita for the conservation of health and for sanitation, for supervising such work, for the prevention and treatment of communicable diseases, for the conservation of child life, and for such activities as food regulation and inspection and the regulation of professional occupations.

Twelve cents per capita was spent in 1926 for recreational facilities—largely for the parks and reservations, and $1.06 per capita for such miscellaneous purposes as the State Home for Soldiers, the administration of public trust and investment funds, and for such purposes as printing and stationery.

However, owing to the fact that the state derives approximately half of its revenue from sources other than taxation, state expenditures do not affect our pocketbooks so directly as do local expenditures, the money for which does come largely from taxes. Consequently, although per capita costs of state government are high as compared with other states, still the burden of state expenditures is not felt so much as that of local expenditures. Hence, local expenditures will be discussed in more detail than were state expenditures. The spending of the tax

Table XIII.—DISTRIBUTION OF PROPERTY TAXES ON FARM REAL ESTATE IN FIVE REPRESENTATIVE COUNTIES, ACCORDING TO LEVYING JURISDICTON—1919-1926

			Levied by					
			State		County		Township and School District	
	Year	Total Tax Per Acre	Taxes per acre	Taxes per acre	Per Cent of total taxes	Taxes per acre	Per Cent of total taxes	Per cent of total taxes
Brookings County	1919	.82	.16	20.1	.29	35.8	.37	44.1
	1920	.94	.18	18.8	.33	36.1	.43	45.1
	1921	.98	.14	14.8	.27	27.7	.57	57.5
	1922	.93	.18	19.6	.24	25.5	.51	54.9
	1923	.87	.18	20.2	.19	21.7	.50	58.1
	1924	.96	.20	21.3	.24	24.7	.52	54.0
	1925	.80	.20	25.0	.21	26.3	.39	48.7
	1926	.83	.19	22.9	.20	24.1	.44	53.0
8-year average		.89	.18	20.2	.25	28.1	.46	51.7
Beadle County	1919	.73	.12	16.0	.34	46.7	.28	37.3
	1920	.92	.13	14.0	.39	42.2	.40	43.8
	1921	.81	.11	13.0	.26	31.9	.44	55.1
	1922	.90	.12	13.3	.34	37.3	.44	49.4
	1923	.77	.11	14.4	.21	28.0	.45	57.6
	1924	.79	.13	17.1	.26	33.5	.40	49.4
	1925	.79	.15	19.0	.21	26.6	.43	54.4
	1926	.82	.14	17.1	.21	25.6	.47	57.3
8-year average		.82	.13	15.9	.28	34.1	.41	50.0
Day County	1919	.72	.11	15.1	.32	43.9	.29	41.0
	1920	.81	.11	13.4	.30	36.9	.40	49.7
	1921	.72	.09	12.6	.23	31.6	.40	55.8
	1922	.70	.11	15.3	.22	31.9	.37	52.8
	1923	.69	.10	14.9	.25	36.0	.34	49.1
	1924	.70	.12	17.0	.24	33.7	.34	49.3
	1925	.74	.13	17.6	.22	29.7	.39	52.7
	1926	.72	.12	17.6	.19	25.9	.41	56.5
8-year average		.73	.11	15.1	.25	34.2	.37	50.7
Hamlin County	1919	.70	.12	16.9	.27	37.8	.35	45.3
	1920	.90	.13	14.1	.40	44.7	.36	41.2
	1921	.88	.11	11.9	.28	31.5	.46	56.6
	1922	.87	.12	13.6	.27	31.3	.46	55.1
	1923	.80	.12	14.6	.23	28.3	.43	57.1
	1924	.82	.14	17.4	.25	30.2	.43	52.4
	1925	.87	.15	17.2	.26	29.9	.46	52.9
	1926	.81	.15	18.5	.21	26.0	.45	55.5
8-year average		.83	.13	15.7	.27	32.6	.43	51.7
Pennington County	1919	.08	.01	11.7	.05	55.7	.02	32.6
	1920	.15	.01	8.6	.08	53.8	.06	37.6
	1921	.17	.01	6.6	.10	58.9	.06	34.5
	1922	.16	.01	8.6	.10	62.3	.05	29.1
	1923	.16	.01	8.5	.10	61.7	.05	29.8
	1924	.19	.02	9.5	.10	51.5	.07	39.0
	1925	.38	.04	10.9	.20	51.2	.14	37.9
	1926	.36	.04	11.2	.19	51.5	.13	37.3
8-year average		.21	02	9.1	.12	55.8	.07	35.1
Summary of Five Counties	1919	.61	.10	16.4	.25	41.0	.26	42.6
	1920	.74	.11	14.9	.30	40.5	.33	44.6
	1921	.71	.09	12.7	.23	32.4	.39	54.9
	1922	.71	.11	15.5	.23	32.4	.37	52.1
	1923	.66	.11	16.7	.20	30.3	.35	53.0
	1924	.69	.12	17.4	.22	31.9	.35	50.7
	1925	.72	.14	19.4	.22	30.6	.36	50.0
	1926	.71	.13	18.3	.20	28.2	.38	53.5
8-year average		.69	.11	15.9	.23	33.3	.35	50.8

dollar will be considered under two general headings—first, by whom it is spent, and secondly, for what purpose it is spent.

The Distribution of Property Taxes According to Levying Jurisdiction on Farm and City Real Estate in South Dakota for the Years, 1919 to 1926, Inclusive.

The farm tax dollar.—The average total property tax per acre on farm land in five representative counties in the State of South Dakota, for the years 1919 to 1926 inclusive, was 69 cents. During that period, the state levied, on the average, 11 cents or 16 per cent of the total property taxes on farm land; the county, 23 cents or 33 per cent of the total taxes, and the township and school districts 35 cents or 51 per cent. Table XIII gives the distribution of the farm tax dollar according to the levying jurisdiction in South Dakota.

The proportion of property taxes levied by the state ranged from a low of 13 per cent in 1921, to a high of 19 per cent in 1925—a range of six per cent for the period. The proportion of taxes levied by the state, decreased on the average from 1919 to 1921, and increased from 1922 to 1926, inclusive. There was a small decrease in the proportion of taxes the state levied in 1926 as compared with 1925. The proportion of property taxes levied on the average by the county ranged from a low of 28 per cent in 1926, to a high of 41 per cent in 1919, and by the minor subdivisions, from 43 per cent in 1919 to 55 per cent in 1921.

The varying proportions of the total tax levied by the county and minor subdivisions were approximately the same for all counties studied except Pennington, which is located west of the Missouri River. There the state levied nine per cent of the total property taxes, the county 56 per cent, and the minor subdivisions 35 per cent. The proportion of taxes levied by the county, and the minor subdivisions, merely reflect the differences in method of conducting county, or local affairs. The greater the degree of centralization in any jurisdiction, the larger the proportion of taxes that will be levied by that jurisdiction.

The proportion of property taxes levied by the state may be partly explained in the same way, although, in South Dakota, the state's part is very much affected by revenues from sources other than the property tax. The state derives its revenue from direct taxation, from fees, from the federal government, and from school and public lands. Thus the state tax levy on property in the state is such that it will give an amount of revenue which, if added to that available from other sources, will yield the total amount of revenue required by the state.

Comparing the average of the first four years of the period with the last four years covered in the survey, there has been a tendency for the state and the township and school district to take a larger proportion of the farmer's tax dollar. The state took on the average approximately 15 per cent of the farmer's tax dollar during the four years from 1919 to 1922, inclusive. From 1923 to 1926, inclusive, it took on the average 18 per cent. The township and school district took on the average 48½ per cent during the earlier period and 51½ per cent during the latter period. On the other hand, there has been a tendency for the

Table XIV.—DISTRIBUTION OF PROPERTY TAXES ACCORDING TO LEVYING JURISDICTION ON CITY REAL ESTATE IN FIVE REPRESENTATIVE COUNTIES IN SOUTH DAKOTA—1919-1926

			Levied by					
			State		County		Municipality	
	Year	Total Taxes*	State taxes	Per cent of total taxes	County taxes	Per cent of total taxes	Other taxes*	Per cent of total taxes
Brookings County	1919	2002	130	6.5	232	11.6	1640	81.9
	1920	2718	142	5.2	264	9.7	2312	85.1
	1921	3118	124	4.0	232	7.4	2762	88.6
	1922	2926	147	5.0	191	6.5	2588	88.5
	1923	3298	162	4.9	180	5.5	2956	89.6
	1924	3028	208	6.9	241	8.0	2579	85.1
	1925	3407	266	7.8	270	7.9	2871	84.3
	1926	3674	261	7.1	274	7.5	3139	85.4
8-year average				6.0		7.8		86.2
Beadle County	1919	3658	194	5.3	567	15.5	2897	79.2
	1920	2294	115	5.0	345	15.0	1834	80.0
	1921	2396	104	4.4	255	10.6	2037	85.0
	1922	2452	131	5.3	367	15.0	1954	79.7
	1923	2189	137	6.3	265	12.1	1787	81.6
	1924	4536	332	7.3	652	14.4	3552	78.3
	1925	2470	168	6.8	239	9.7	2063	83.5
	1926	2577	172	6.7	252	9.8	2153	83.5
8-year average				6.0		13.0		81.0
Day County	1919	2695	178	6.6	521	19.3	1996	74.1
	1920	3378	185	5.5	501	14.8	2692	79.7
	1921	3757	191	5.1	463	12.3	3103	82.6
	1922	4063	217	5.3	454	11.2	3392	83.5
	1923	3774	239	6.3	580	15.4	2955	78.3
	1924	3522	299	8.5	592	16.8	2631	74.7
	1925	3606	333	9.2	547	15.2	2726	75.6
	1926	2892	230	7.9	340	11.8	2322	80.3
8-year average				6.8		14.4		78.8
Hamlin County	1919	3089	185	6.0	416	13.5	2488	80.5
	1920	4360	193	4.4	613	14.1	3554	81.5
	1921	4670	172	3.7	455	9.7	4043	86.6
	1922	4279	198	4.6	454	10.6	3627	84.8
	1923	4514	205	4.5	398	8.8	3911	86.7
	1924	4038	262	6.5	454	11.2	3322	82.3
	1925	1619	123	7.3	207	12.2	1360	80.5
	1926	1814	125	6.9	178	9.8	1511	83.3
8-year average				5.1		11.2		83.7
Pennington County	1919	3927	175	4.5	708	18.0	3044	77.5
	1920	5462	226	4.1	1111	20.3	4125	75.6
	1921	6391	216	3.4	1583	24.8	4592	71.8
	1922	6067	251	4.1	1544	25.4	4272	70.5
	1923	6582	245	3.7	1516	23.0	4821	73.3
	1924	7806	376	4.8	1838	23.5	5592	71.7
	1925	5478	305	5.6	1319	24.0	3854	70.4
	1926	5431	306	5.6	1304	24.0	3821	70.4
8-year average				4.4		23.2		72.4
Summary of the Five Counties	1919	15371	862	5.6	2444	15.9	12065	78.5
	1920	18212	861	4.7	2834	15.6	14517	79.7
	1921	20332	807	4.0	2988	14.7	16537	81.3
	1922	19787	944	4.8	3010	15.2	15833	80.0
	1923	20357	988	4.9	2939	14.4	16430	80.7
	1924	22929	1477	6.4	3777	16.5	17676	77.1
	1925	16651	1195	7.2	2582	15.5	12874	77.3
	1926	16388	1094	6.7	2348	14.3	12946	79.0
8-year average				5.5		15.3		79.2

*City taxes included.

county to take a less proportion of the farmer's tax dollar. From 1919 to 1922, inclusive, the county absorbed 36½ per cent of the tax dollar, and from 1923 to 1926, inclusive, approximately 30 per cent.

The city tax dollar.—During the same period, the state, as compared with the county and the towns and cities included in the survey, levied a relatively small proportion of the total property tax on city real estate. From 1919 to 1926, inclusive, the state tax was on the average 6 per cent of the total, the county 15 per cent, and the municipality, 79 per cent of the total direct taxes upon city real estate in South Dakota. Approximately 45 per cent of the total tax, lexied by the towns and cities, was for schools, and 35 per cent was for town and city administration. Table XIV gives the distribution of the city tax dollar according to the levying jurisdiction in South Dakota.

Here again the varying proportions of the total property tax levied by the county or by the town or city merely reflect differences in method of conducting county or municipal affairs. Of the towns and cities included in the survey, the relative proportions of the total property tax levied by the different tax jurisdictions, vary most for Rapid City in Pennington County. There the state levied, on the average, only five per cent of the total tax for the years 1919 to 1926, inclusive, whereas the county levied 23 per cent, and the city 72 per cent. Brookings city, on the other hand, has a relatively low county tax levy, and a relatively high school tax levy. Just as in the case of farm property, so the proportion of the total tax levied by the state on city real estate, will be determined largely by the amount of revenue available from sources other than the general property tax.

When the taxes that are levied by towns and cities for general purposes are excluded as in Table XV, it is found that the state levied on the average 8 per cent of the total state, county, and school district taxes on city real estate during the years 1919 to 1926 inclusive, the county 24 per cent, and the municipality 68 per cent. The city taxes excluded are those levied for purposes for which there is no counterpart in the rural districts.

The Per Cent Distribution as to Purpose for Which Property Taxes on Farm and City Real Estate Were Levied in the State of South Dakota During the Years 1919 to 1926, Inclusive.

During the years, 1919 to 1926, inclusive, as much as 89 per cent of the total direct taxes on farm property in five representative counties of South Dakota, was spent on the average for three major purposes—education, highways, and for state and local government. Education took 42 per cent of the farm tax dollar; highways 27 per cent; and state and local government took 20 per cent.

Education.—Education was the most important purpose for which the farm and the city tax dollar was spent. Costs of education include the money raised by district levy and spent on common schools, the money appropriated by the state legislature for state educational institutions, and for boards and associated departments like the board of regents

Table XV.—PROPERTY TAXES OTHER THAN THOSE LEVIED BY THE CITY, DISTRIBUTED ACCORDING TO LEVYING JURISDICTION ON CITY REAL ESTATE IN FIVE REPRESENTATIVE COUNTIES IN SOUTH DAKOTA 1919-1926

			Levied by					
			State		County		Municipality	
	Year	Total taxes*	State taxes	Per cent of total taxes	County taxes	Per cent of total taxes	Other taxes*	Per cent of total taxes
Brookings County	1919	$1377	$130	9.4	$232	16.9	$1015	73.7
	1920	1766	142	8.0	264	15.0	1360	77.0
	1921	2213	124	5.6	232	10.5	1857	83.9
	1922	1847	147	8.0	191	10.3	1509	81.7
	1923	2183	162	7.4	180	8.3	1841	84.3
	1924	1765	208	11.8	241	13.7	1316	74.5
	1925	2200	266	12.1	270	12.3	1664	75.6
	1926	2490	261	10.5	274	11.0	1955	78.5
8-year average		1980	180	9.1	235	11.9	1565	79.0
Beadle County	1919	2078	194	9.3	567	27.3	1317	63.4
	1920	1508	115	7.6	345	22.9	1048	69.5
	1921	1283	104	8.1	255	19.9	924	72.0
	1922	1576	131	8.3	367	23.3	1078	68.4
	1923	1174	137	11.7	265	22.6	772	65.7
	1924	2652	332	12.5	652	24.6	1668	62.9
	1925	1440	168	11.7	239	16.6	1033	71.7
	1926	1499	172	11.5	252	16.8	1075	71.7
8-year average		1651	169	10.2	368	22.3	1114	67.5
Day County	1919	1929	178	6.6	521	19.3	1230	74.1
	1920	2399	185	5.5	501	14.8	1713	79.7
	1921	2809	191	5.1	463	12.3	2155	82.6
	1922	2918	217	5.3	454	11.2	2247	83.5
	1923	2633	239	6.3	580	15.4	1814	78.3
	1924	2594	299	8.5	592	16.8	1703	74.7
	1925	2698	333	12.3	547	20.3	1818	67.4
	1926	2187	230	10.5	340	15.5	1617	74.0
8-year average		2521	234	9.3	500	19.8	1787	70.9
Hamlin County	1919	1890	185	9.8	416	22.0	1289	68.2
	1920	2631	193	7.3	613	23.3	1825	69.4
	1921	2455	172	7.0	455	18.5	1828	74.5
	1922	2197	198	9.0	454	20.7	1545	70.3
	1923	2311	205	8.9	398	17.2	1708	73.9
	1924	2073	262	12.6	454	21.9	1357	65.5
	1925	895	123	13.8	207	23.1	565	63.1
	1926	998	125	12.5	178	17.8	695	69.7
8-year average		1931	183	9.5	397	20.5	1352	69.3
Pennington County	1919	2395	175	7.3	708	29.6	1512	63.1
	1920	3664	226	6.2	1111	30.3	2327	63.5
	1921	4009	216	5.4	1583	39.5	2210	55.1
	1922	4308	251	5.8	1544	35.8	2513	58.4
	1923	4699	245	5.2	1516	32.3	2938	62.5
	1924	5574	376	6.7	1838	33.0	3360	60.3
	1925	3860	305	7.9	1319	34.2	2236	57.9
	1926	3837	306	8.0	1304	34.0	2227	58.0
8-year average		4043	263	6.5	1365	33.8	2415	59.7
Summary of the Five Counties	1919	9669	862	8.9	2444	25.3	6363	65.8
	1920	11968	861	7.2	2834	23.7	8273	69.1
	1921	12769	807	6.3	2988	23.4	8974	70.3
	1922	12846	944	7.4	3010	23.4	8892	69.3
	1923	13000	988	7.6	2939	22.6	9073	69.8
	1924	14658	1477	10.1	3777	25.8	9404	64.1
	1925	11093	1195	10.8	2582	23.3	7316	65.9
	1926	11011	1094	10.0	2348	21.3	7569	68.7
8-year average		12127	1029	8.5	2865	23.6	8233	67.9

*City taxes excluded.

and the superintendent of public instruction. It also includes state aid to schools. There was, on the average, approximately 41½ per cent of the farm tax dollar spent on education during the above period. All of this, with the exception of 3½ per cent of the tax dollar, went to the support of the public schools. Of that which went to the public schools, 37½ per cent was raised by district levy and went directly to the schools. The remaining one-half of one per cent which went to the public schools was first appropriated from the general fund by the state legislature and then largely apportioned out to the school districts as state aid. Only one-tenth of one per cent went to the Superintendent of Public Instruction for salary and expenses. The remaining 3½ per cent of that portion of the farmer's tax dollar which went for costs of education, went to the Board of Regents, the State University, the State College of Agriculture, the School of Mines, and the four normal schools in the state. The following table shows that portion of the farm and the city tax dollar which went for costs of education.

Table XVI.—THE PER CENT DISTRIBUTION OF THAT PORTION OF THE FARM AND CITY TAX DOLLAR WHICH WAS SPENT FOR EDUCATION ON THE AVERAGE FOR THE PERIOD, 1919 TO 1926, INCLUSIVE.

	Common School District	State Aid	Supt. of public Instruction	State Institutions	Board of Regents	Total
Farm tax dollar	37.4	0.4	0.1	3.7	(a)	41.6
City tax dollar	43.5	0.1	(a)	1.2	(a)	44.8

(a) Less than one-tenth of one per cent.

It will be noticed that as much as 43½ per cent of the 44.8 per cent of the city tax dollar which went for costs of education, was raised by district levy and went directly to the public schools. Only a little over one per cent of the city tax dollar went to the support of state educational institutions. No definite trend is noted in the proportion of the farm and city tax dollar that goes for educational purposes—the proportion levied for this purpose varied up and down from year to year during the period.

Public schools are by far the major cost of education and will be considered first. Salaries of public school teachers constitute the most important public school expenditure. During the period, 1919 to 1926, inclusive, 44 per cent of the total expenditures for public schools in South Dakota was for salaries. In relation to the general price level or the prices paid for goods and other services, the average salary paid teachers in public schools has not varied greatly during the above period, except for a marked decrease in 1920 from the year previous, when there was a general decrease in prices. The average annual salary of teachers actually increased in 1921 over that of 1920, but prices, particularly agricultural prices, decreased still further. Expressing the

trend of teachers' salaries in terms of dollars, salaries were only about $60 less on the average for all grades of teachers in public schools during the last four years of the period, than they were in the earlier four years of the period.

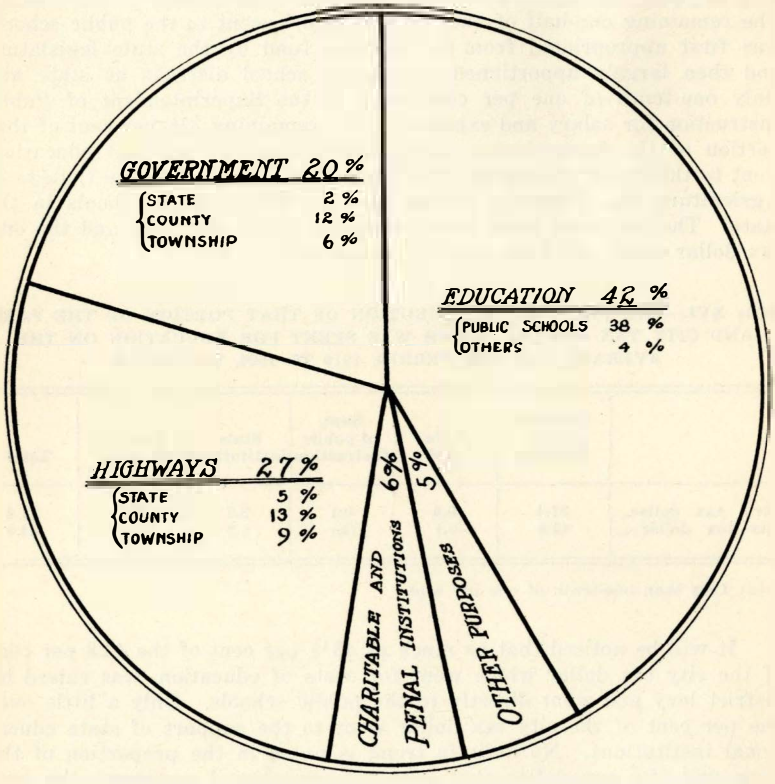

Fig. 4.—The average per cent distribution of the farm tax dollar according to the purpose for which spent in five representative counties in South Dakota, from 1919 to 1926, inclusive.

Although salaries for teachers have not decreased to an extent as great as prices of commodities during this period, it is well to point out in this connection, certain things which would justify a relatively higher scale of salaries for public school teachers after allowing for changes in the general price level. In the first place, the average length of term in days has increased from 163 days for all types of schools in 1920 to 172 days during the past three years. In the second place, more and more public schools have availed themselves of state aid, thus indicating that they had raised their standards to meet the requirements for state aid schools. One such requirement is the employment of a first grade teacher. In the third place, there is evidence that teachers

in public schools are gaining more experience and have higher qualifications to carry on their work. During the first four years of the period, 7 per cent of the public school certificates were granted on the basis of renewal, and during the last four years, 11 per cent. The increase has been particularly marked during the past two years. The steady increase in the number of certificates that have been renewed would imply more years of experience for teachers. There was also a marked tendency during the period to secure certificates by credentials rather than by examination. Moreover, the number of certificates granted on the basis of validation has fallen off considerably during the past two years. In 1919, 70 per cent of the certificates granted were based on an examination, 20 per cent on credentials, 3 per cent on validation, and the remaining 7 per cent on renewal. In 1926, these same relative percentages were as follows: examination, 57 per cent; credentials, 30 per cent; validation, 4 per cent; and renewal, 9 per cent.

That public school teachers are becoming more highly qualified is also suggested by the fact that, during the period, the number of third class certificates granted has decreased from an average of about 12 per cent of the total, to none at all during the last four years of the period. At the same time, the number of first class grade certificates was 153 per cent greater in 1926 than in 1919, and second class certificates, 50 per cent greater.

During the above period, the average salary paid male teachers was 7 per cent greater than that paid female teachers in rural schools, 25 per cent more in town and city independent schools, and 18½ per cent more in consolidated schools. In all types of schools, male teachers received a salary on the average 18 per cent greater than that of female teachers. Only in one year, 1920, and in rural schools only, was the average salary of female teachers more than that of male teachers. The average salary paid female teachers that year was 4 per cent greater than for male teachers. In general, female teachers are much more adapted for work in the rural schools than are male teachers, and the discrepancy in the salary paid for the same teaching duties is far less justified than it is in the case of independent town and city schools and consolidated schools, where the factor of discipline is probably more important. There is, however, a relatively small number of male teachers employed in the public schools of South Dakota. Of the total number of teachers employed during the period, only 12 per cent on the average were male teachers. Table XVII gives the relative importance of public school expenditures.

The second most important purpose for which schools expended money was for school houses and sites. As much as 30 per cent of the total school expenditures was for school houses, sites, and the redemption of and interest on indebtedness incurred largely to provide school houses and school house equipment. This class of school expenditure was even more important than that of teachers' salaries in the case of consolidated schools—being 44 per cent of the total expenditures for the period, whereas salaries of teachers in consolidated schools were only 30 per cent of the total expenditures.

Table XVII.—THE AVERAGE PER CENT DISTRIBUTION OF PUBLIC SCHOOL EXPENDITURES IN SOUTH DAKOTA FOR THE PERIOD, 1919 TO 1926, INCLUSIVE

Expenditure	Per Cent of total
Teachers' salaries	44
School houses, sites, etc.	12
Redemption of bonds and warrants	13
Interest on bonds and warrants	5
Incidental expenses, fuel, etc.	5
Repairs to buildings, replacements	3
Tuition	3
Furniture	2
Transportation of pupils	2
County Superintendent	1
Textbooks	1
Salaries to school officers	(a)
State superintendent	(a)
County institutes	(a)
Other purposes	8
Total	100

(a) Less than one per cent.

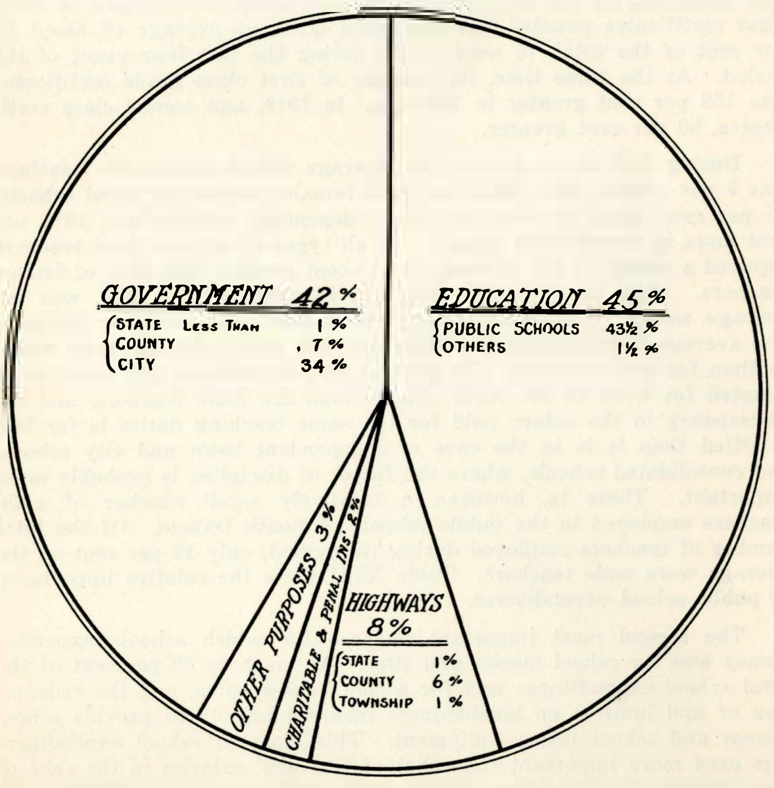

Fig. 5.—The average per cent distribution of the city tax dollar according to the purpose for which spent in five representative counties in South Dakota, from 1919 to 1926, inclusive.

Incidental expenses such as fuel, light, janitor service, etc., took 5 per cent of the total public school expenditures. Repairs to school buildings and replacements took 3 per cent. Tuition has now become an important class of expenditure for rural schools. By Act of the 1920 Session of the State Legislature, every boy and girl in South Dakota was accorded the opportunity of a high school education at the expense of the public. Fees are now paid by the school district from which each pupil entitled to high school tuition comes. While this form of expenditure constitutes less than one-half of one per cent in the case of independent and consolidated schools, it has increased from 1½ per cent to 11 per cent of the total expenditures of rural schools during the period from 1919 to 1926 inclusive. Tuition fees took, on the average, 3 per cent of the total expenditures of all types of schools.

Transportation is an important form of expenditure in the case of consolidated schools, taking 6½ per cent of the total money expended by consolidated schools, but only 1½ per cent in the case of all types of schools. Furniture took a further two per cent of the total expenditures, textbooks one per cent, and the office of the county superintendent, also one per cent. Less than one per cent of the total public school expenditures during the period went on the average to each of the following: school officers, the office of the state superintendent of public instruction, and the work of the county normal institutes.

Rural schools have less in proportion expended on them per pupil enrolled than do independent and consolidated schools. Table XVIII shows that, as an average, 51.4 per cent of all the pupils enrolled in public schools during the period, 1919 to 1926 inclusive, were enrolled in the rural schools of the state, 40.4 per cent in the independent town and city schools, and 8.2 per cent in the consolidated schools.

Table XVIII.—EXPENDITURES PER PUPIL ENROLLED IN THE VARIOUS TYPES OF SCHOOLS IN SOUTH DAKOTA FOR THE PERIOD, 1919 TO 1926, INCLUSIVE

	Per Cent Enrolled			Per Cent of Total School Expenditures			
Year	Rural	Independent	Consolidated	Rural	Independent	Consolidated	State and County Supervision
1919	62.5	33.8	4.1	55.7	37.2	6.0	1.1
1920	53.5	40.5	6.0	45.1	40.5	12.2	2.2
1921	51.4	39.1	9.5	40.6	42.3	15.3	1.8
1922	50.5	39.7	9.8	37.6	46.0	15.8	1.6
1923	49.2	41.4	9.4	40.7	44.6	13.0	1.7
1924	48.7	42.3	9.0	41.2	44.7	12.5	1.6
1925	48.4	42.6	9.0	43.0	44.2	11.1	1.7
1926	47.8	43.7	8.5	44.2	43.4	10.8	1.6
8-yr. Av.	51.4	40.4	8.2	42.5	43.3	12.4	1.8

Only 42.5 per cent of the total money expended on schools went to the rural schools, 43.3 per cent to the independent town and city schools, and 12.4 per cent to the consolidated schools. The last two types of schools have fared better than did rural schools with respect to the amount of money expended on them per pupil enrolled. Since 1922, however, the amount of money expended per pupil enrolled in rural schools has increased and, by 1926, the proportion of money expended to number of children enrolled had become more favorable. In that year, 44 per cent of the total money expended on schools went to the rural schools, and 47.8 per cent of the total number of pupils were enrolled in them. On the other hand, there has been a tendency, since 1922, for less money to be spent on each pupil enrolled in independent and consolidated schools. But in all years, the share of the total money expended on these two types of schools has exceeded the proportion of the pupils enrolled in them.

It will be noted in Table XVII, that the per capita cost of rural schools per pupil enrolled is comparatively high when the relative advantages that each type of school offers is taken into consideration. Moreover, per capita costs in rural schools have increased more rapidly than in other types. In 1926, per capita costs in rural schools per pupil enrolled were 54½ per cent greater than they were in 1920, 25 per cent greater in the case of independent town and city schools, and 12 per cent less in the case of consolidated schools. For all types of schools combined, per capita costs of public schools per pupil enrolled were 41½ per cent greater in 1926 than in 1920.

Table XIX.—PER CAPITA* COST OF PUBLIC SCHOOLS PER PUPIL ENROLLED

Year	Rural Schools	Independent Schools	Consolidated Schools	All Schools
1919	------	------	------	67.62
1920	68.13	80.79	163.56	78.99
1921	85.72	117.18	173.82	106.42
1922	87.68	132.88	187.72	116.13
1923	94.82	123.64	157.60	112.56
1924	98.76	121.50	159.90	107.17
1925	97.96	114.66	136.82	108.56
1926	105.31	113.15	144.07	112.04
8-Yr. Av.	91.20	114.83	160.50	101.19

It has already been pointed out that public schools in South Dakota are largely financed by means of levying a direct tax upon the assessed valuation of property in the state. The assessed valuation per pupil enrolled in the public schools of South Dakota indicates in a general way, the ability of different counties and districts to meet school expenditures. Figure 6 gives the average assessed valuation per public school pupil in South Dakota for 1926.

*NOTE: By per capita cost is meant payment per individual taxpayer or resident of the community, not per pupil.

The average assessed valuation per pupil enrolled in that year was $11,402, but there was a very wide range as between counties. There were eight counties that had an assessed valuation per pupil of between $5,000 and $8,000 and three counties that had an assessed valuation

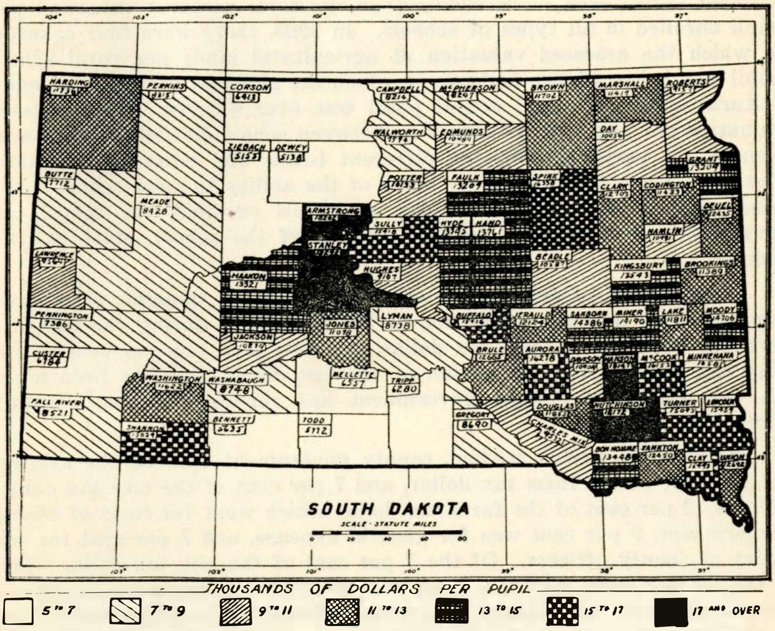

Fig. 6.—Average assessed valuation per public school pupil by counties in South Dakota for 1926.

per pupil of over $17,000. If the assessed valuation per pupil can be taken as an index of the ability to meet school expenditures, then as Figure 6 shows, the people in the eastern and southeastern parts of the state, have been more advantageously situated in this respect than those west of the Missouri River. However, the assessed valuation per pupil is not a very satisfactory index of the ability of taxpayers to meet school expenditures. Stanley County (including the unorganized county of Armstrong) had the largest assessed valuation per pupil in 1926. This was due, however, to the relatively small number of pupils enrolled. According to the State Board of Equalization, the average assessed valuation per acre in Stanley County in 1926 was $10.69, as compared with $80.74 in Hutchinson County, and $72.97 in Hanson County. All three counties, however, had an assessed valuation per pupil of over $17,000. A larger public school enrollment in Armstrong County would make the assessed valuation per pupil less, but it is reasonable to assume that school expenditures would be little, if any more difficult to meet up to a certain point. There are school costs, like teachers' salaries and capital

outlays for school houses and school equipment, which are largely fixed and are, to a certain extent, independent of the number of pupils enrolled. Therefore, the assessed valuation per pupil enrolled only indicates in a very general way the ability to meet school costs.

The assessed valuation of agricultural lands per rural school pupil enrolled varies even more widely than the total assessed valuation per pupil enrolled in all types of schools. In 1926, there were four counties in which the assessed valuation of agricultural lands per rural school pupil was below $5,000, and two in which the assessed valuation of agricultural lands per rural school pupil was over $25,000. The assessed valuation per pupil varies widely as between school districts in the same county. It varies as between different towns and cities in the state. Consequently in using it as an index of the ability to meet school costs, other factors such as the number of pupils enrolled, the school tax levy, the type of school, and the location of the school, must be considered.

Government.—Contrary to what is sometimes thought, state government took a small proportion of the tax dollar during the period—two per cent of the farm tax dollar, and less than one per cent of the city tax dollar. The proportion of the tax dollar that has been spent on the average for state government has remained almost constant since 1921.

During the period studied, county government took on the average 12 per cent of the farm tax dollar, and 7 per cent of the city tax dollar. Of the 12 per cent of the farm tax dollar which went for costs of county government, 9 per cent was for general expense, and 3 per cent for salaries of county officers. Of the 7 per cent of the city tax dollar which went for the same purpose, 5 per cent went for county general expense and 2 per cent for salaries of county officers. The proportion of the tax dollar which went for general expense, which includes office and traveling expense and expenses incurred for supplies, advertising, printing, and various miscellaneous purposes, and salaries of county officials, has varied but little from the average for the period. In keeping with the general decrease in the prices of goods and services, however, county salaries have decreased from the high of the period 1919 and 1920. During the past five years, however, there has been very little change.

County government takes a relatively large share of the farm tax dollar. The question arises as to what extent county government costs could be reduced by consolidation. The term is here used to mean the consolidation of governmental offices and services within the county, rather than between counties. Consolidation without appreciable increase in economy and efficiency of governmental administration is possible. Consolidation of a governmental jurisdiction, like the county, should be more than a mere consolidation of officers and offices under a nominal head. It should result in fewer officers, and less overlapping and more coordination in the work done. Industry has long known the advantages that come from consolidation. It would seem reasonable to believe that some of these same economies could come from consolidating governmental agencies.

During the period, 1919 to 1926 inclusive, township government took 6 per cent of the farm tax dollar, and municipal government took 34 per cent of the city tax dollar. Costs of city government are relatively high and yet they have been taking on the average less of the city property taxes since 1921. The proportion of property taxes levied for city administration has decreased from a high for the period of 36 per cent to a low of 31 per cent in 1926.

A comparison between the relative proportions of the farm and the city tax dollar going for purposes of local government cannot be very satisfactorily made. City property owners pay more taxes in absolute amounts than do owners of farm property, and, therefore, the relative burden of state, county, and local administration borne by each cannot be measured in terms of the per cent distribution of taxes according to the purpose for which spent. Although city property owners pay more taxes than do farm owners, they obtain, on the average, more conveniences and facilities of which farm owners are usually deprived—running water, electric lights, paved streets, fire protection, parks, etc. However, it has not been possible to break up the general city levy according to the purpose for which spent. If that could be done, some of that which is termed cost of municipal government, would be fire protection, lighting, sewage disposal, etc.

Highways, roads, bridges.—State highways and bridges, county roads and bridges, and township roads, took on the average 37 per cent of the farm tax dollar during the years 1919 to 1926 inclusive, and 8 per cent of the city tax dollar. Again, a comparison between the relative proportion of the farm and city tax dollar going for local roads is unsatisfactory. Cities have no township road levy, but some of the tax money raised by general city levy goes for somewhat similar purposes as township roads—such as, the paving of the main streets of a city, the grading, curbing and gravelling of others, city boulevards, etc. Villages and, in general, smaller towns, have, however, a township road levy.

State highways and bridges took, on the average, five per cent of the farm tax dollar and one per cent of the city tax dollar. This includes a one-tenth of a mill levy made for state highway purposes in 1919, 1920 and 1921; a one-tenth of a mill levy made for state bridges from 1921 to 1926 inclusive; and a levy made to provide sinking fund for and to pay interest on state highway bonds from 1919 to 1926 inclusive. Of the money which comes from property taxes and is spent for state highway purposes, less than one per cent of the farm and the city tax dollar has gone on the average during the eight-year period for bridges across the Missouri River. Practically all of the five per cent in the case of the farm tax dollar, and the one per cent in the case of the city tax dollar, has gone to pay interest on and provide sinking fund for, state highway bonds. By act of the State Legislature at its twentieth session in 1927, interest and sinking fund on state highway bonds are now to be met from the revenue derived from the one-cent additional motor fuel tax which became effective July 1, 1927. Hence, the only state highway expense now met by a direct tax on property, is that for

the Missouri River bridges, which as already indicated, takes less than one per cent of the tax dollar. South Dakota's state highways are being financed almost entirely by those who use the highways, and by the federal government.

County roads and bridges took on the average 13 per cent of the farm tax dollar during the period, and six per cent of the city tax dollar. The relative amount expended on county roads reached a maximum for the period in 1924. During the past two years there has been a small decrease in the proportion of the farm and city tax dollar that is spent for county roads and bridges, and for their maintenance. There were years during the period when some counties spent almost the whole proceeds from the county road and county bridge levies upon new construction and very little upon maintenance. In other counties during the same years, most of the proceeds would be spent upon maintenance. In general, however, counties have been spending on the average about twice as much on road construction as on bridge construction, and road maintenance is usually a bigger item of expense than bridge maintenance. The salary of the county superintendent of highways and his office expense also varies as between counties—ranging from a minimum salary of $1200 a year to $3600, with an average of approximately $2000 a year. The work of the county superintendent of highways is very important. He has charge of all road construction and maintenance in the county, and whether or not the people of the county have a well co-ordinated network of roads depends largely upon the extent to which he co-operates with state and township highway officials.

County and township road costs are relatively high in South Dakota but the money so spent yields an economic return which is indeed significant to the people of the state. The state is not well served by railways running north and south, and as a result much of the passenger and freight traffic goes by way of motor bus and truck in these directions. Not only do the good roads of the state facilitate transportation north and south, but, all over the state, good roads help to cut down the costs of marketing farm products and incidentally are helping to increase the value of farm land. Good roads and the bridges that have been built across the Missouri River have been instrumental in opening up the western part of the state to settlement, and the Black Hills region to tourist traffic. Counties are at present spending relatively more of the tax dollar for roads and bridges than townships. Moreover, there is a tendency towards centralization in the county of local road and bridge matters. This would seem to be in the best interests of everyone—to the people of the township, the county, the state, and the country as a whole. More centralization in the county will make for a local road system more closely co-ordinated with the state and federal highway systems. In any program of road construction and maintenance there should be as close co-operation between local road officials and the county superintendent of highways, as there is between the latter and the state highway commission.

Charitable and penal institutions.—Charitable and penal institutions constitutes the fourth most important purpose for which the farm and the city tax dollar is spent. This includes the money raised by county

levy for Custer Sanitarium, Mothers' Pension, Maintenance of Insane, etc., and also the money appropriated by the state legislature for the support of penal and charitable institutions. During the years 1919 to 1926 inclusive, there was, on the average, six per cent of the farm tax dollar spent on penal and charitable institutions, and two per cent of the city tax dollar. Although the relative proportion of the tax dollar going for such purposes has varied but little in any year from the average for the period, there has been a tendency during the period for these institutions to be supported more and more by state appropriation rather than by county levy. This is as it should be, inasmuch as such institutions are really statewide, and do not belong to any particular county. In terms of an average for the period, however, approximately one-half of the amount spent for such purposes is raised by county levy, and one-half by state levy.

Other purposes.—A further three per cent of the farm tax dollar and one per cent of the city tax dollar, went to pay interest on and provide sinking fund for the bonds of various state enterprises like State Land Settlement, the Cement Plant, and Soldiers' Compensation. All of these enterprises have been undertaken since 1919. County sinking fund and interest took a further two per cent of the farm tax dollar, and one per cent of the city tax dollar. The remainder of the farm and the city tax dollar (less than one per cent) was spent for wolf bounty, the building of court houses, and for various miscellaneous purposes, for which the state legislature appropriated money out of the general fund.

In considering state and local public expenditures, emphasis should be placed not so much upon the aggregate of expenditures, as upon the relative efficiency of the spending agency and the return that is obtained for the money that is spent. In general, the spending agency should be that political subdivision which stands to benefit most by that expenditure, and which for geographical and historical reasons, is in the best position to administer the spending of such funds. The nature of the purpose for which the expenditure is made should determine the spending agency. It has already been noted that the penal and charitable institutions are really state-wide, therefore the tendency for the state to take on an increasing share of their support is as it should be. Similarly, the tendency towards more centralization in the county of local road matters will result in the maximum amount of benefit for the people of the state.

Education, highways, and organized government are the three major purposes for which money is spent by the state and by the local subdivisions in South Dakota. Everyone is convinced of their value. The important question is not whether money should be spent for such purposes but how much should be spent, and is the money that is being spent giving in return full value? Is it being spent by those who are responsible for the success of that form of public activity for which the money is spent? Are the educational, highway, and other developmental programs which have been adopted and are being followed in keeping with the financial condition of the people? In short,

Table XX.—THE PER CENT DISTRIBUTION AS TO PURPOSE FOR WHICH PROPERTY TAXES ON FARM REAL ESTATE WERE LEVIED IN THE STATE OF SOUTH DAKOTA DURING THE YEARS, 1919 TO 1926, INCLUSIVE

		Cost of Government				Highways, roads, bridges				Charitable and		
Year	Education	State	County	Twp.	Total	State	County	Township	Total	Penal Institutions	Other Purposes *	Totals
1919	33	4	16	3	23	2	21	12	35	8	1	100
1920	37	3	14	4	21	3	17	11	31	8	3	100
1921	45	2	13	9	24	6	12	6	24	5	2	100
1922	45	2	13	6	21	6	10	8	24	5	5	100
1923	45	2	11	8	21	6	11	6	23	5	6	100
1924	43	2	12	6	20	6	12	9	27	5	5	100
1925	41	2	11	6	19	6	12	9	27	6	7	100
1926	44	2	12	7	21	6	9	9	24	6	5	100
Av. of all Yrs	42	2	12	6	20	5	13	9	27	6	5	100

*Includes wolf bounty, court house building fund, and money appropriated by state legislature for miscellaneous purposes and which cannot be allocated to education, government or highway costs.

Table XXI.—THE PER CENT DISTRIBUTION AS TO PURPOSE FOR WHICH PROPERTY TAXES ON CITY REAL ESTATE WERE LEVIED IN THE STATE OF SOUTH DAKOTA DURING THE YEARS, 1919 TO 1926, INCLUSIVE.

		Cost of Government				Highways, roads, bridges				Charitable and		
Year	Education	State	County	Municipal	Total	State	County	Township	Total	Penal Institutions	Other Purposes	Totals
1919	43	1	6	35	42	(a)	8	3	11	3	(a)	100
1920	46	1	7	34	42	(a)	8	1	9	2	(a)	100
1921	44	(a)	7	36	43	1	5	2	8	2	2	100
1922	44	(a)	7	35	42	1	5	2	8	2	3	100
1923	46	(a)	6	35	41	1	6	1	8	2	3	100
1924	43	(a)	7	35	42	2	6	1	9	2	3	100
1925	46	1	6	32	39	2	6	(a)	8	3	3	100
1926	48	(a)	6	31	37	2	5	(a)	7	3	3	100
Av. of all yrs.	45	(a)	7	34	42	1	6	1	8	2	3	100

(a) Less than one per cent.

can the people afford such expenditures? The question of public indebtedness is now to be considered. The relatively large per capita state and local debt in South Dakota suggests that highway building, the building of schools and expensive court houses, and other capital outlays for which money has been borrowed, are being pushed too rapidly. It has been noted that South Dakota is largely a one-industry state. Relatively large public expenditures cannot be other than burdensome when agriculture is unprofitable. A closer relationship should exist between state and local expenditures in South Dakota and the ability to meet those expenditures, or, the net return from agriculture.

PUBLIC INDEBTEDNESS OF SOUTH DAKOTA

STATE DEBT

In 1919 the State of South Dakota had no net debt. At the close of the fiscal year ending June 30, 1926, the state had a net debt of $17,172,000 or $25.07 per capita, according to the Bureau of the Census, United State Department of Commerce. The Bureau of Census defines net debt as the funded and floating debt of the state, less sinking fund assets. The floating debt of the state is very small. In fact, there was no floating debt until 1925. At the close of the fiscal year ending June 30, 1925, there was a floating debt of $500,000, made up of hail insurance warrants. At the close of the past fiscal year the floating debt was $2,500,000 made up of tax anticipation warrants. These forms of indebtedness were incurred for merely temporary purposes as contrasted with the more permanent purposes for which the rest of the state's indebtedness has been incurred.

Most of the state's indebtedness is funded and is evidenced by formal instruments like serial bonds which have a number of years to run. Table XXII gives the total and the per capita net debt of South Dakota for the years 1921 to 1926 inclusive.

Table XXII.—NET PUBLIC DEBT IN THE STATE OF SOUTH DAKOTA.

Year	Net Debt	Per Capita
1921	$5,539,896	$8.63
1922	14,420,602	22.27
1923	14,522,225	22.25
1924	16,572,000	24.73
1925	15,965,000	23.50
1926	17,172,000	25.07

It will be noticed that since 1922 the state's indebtedness has remained fairly constant at an average of approximately $23.50 per capita. The marked increase in the state's debt from 1921 to 1922 was largely due to the issuing of highway and soldiers' bonus bonds.

At the close of the fiscal year ending June 30, 1926, only four other states in the Union had a per capita debt greater than the State of South Dakota. Oregon, with $43.61 had the largest per capita net debt. North Carolina followed with $42.03, Delaware $34.33, West Vir-

ginia $28.85, and South Dakota $25.07. Nebraska was the only state in the Union that did not have any net debt during the year. The average per capita net debt for all states was $11.46. South Dakota's net debt was thus more than double that of the average of all states.

According to geographic divisions, the Pacific Coast region with $22.52 per capita had the greatest net debt at the close of the fiscal year ending June 30, 1926. This region was followed by the South Atlantic and the Middle Atlantic states with a per capita net debt of $15.81 and $14.90, respectively. The West North Central States of which South Dakota is one, followed with a per capita net debt of $11.11. South Dakota with $25.07 per capita thus has a net debt more than double that of the average of the geographic division in which it is located. The average net debt for this region is approximately the same as the average net debt for all states. The large net debt of South Dakota was largely offset by Nebraska having no net debt in 1926, and by the relatively small per capita indebtedness of Minnesota, Iowa, and North Dakota.

Just as in other states, most of the public indebtedness in South Dakota has been incurred for the construction of public works—very little for passing needs such as recurring treasury deficits. Most of the debt is funded and has been incurred for more permanent needs like highways and for such purposes as state land settlement, the cement plant, and soldiers' compensation. Table XXIII gives in detail the purposes for which the state has incurred debt.

Table XXIII.—GROSS PUBLIC DEBT IN THE STATE OF SOUTH DAKOTA AS OF JUNE 30, 1926, CLASSIFIED ACCORDING TO PURPOSE FOR WHICH INCURRED.

Kind	Amount
Highway Bonds	$5,350,000
Soldiers' Bonus Bonds	$6,000,000
Land Settlement Bonds	800,000
Cement Bonds	2,000,000
Rural Credits Bonds	45,500,000
Tax Anticipation Warrants	2,500,000
Total	$62,150,000

With the exception of the rural credit bonds, these forms of indebtedness are to be paid through taxation—that is, a general tax levy is made on the assessed valuation of property in the state for the purpose of paying interest on the above bonds and also to set up sinking funds for their retirement. The rural credit bonds are an extension of credit from the rural credit fund upon first mortgages and are supposed to be paid, principal and interest, by the borrowers. The Rural Credit Board has the power to prescribe rules and regulations concerning the manner in which such bonds shall be sold, paid, and retired.

Comparatively little of the debt that has been incurred has been retired. This is partly due to the fact that almost all of it has been

incurred since 1921. Five years is rather a short time in which to retire any large amount of bonded indebtedness. The state constitution has imposed upon the legislature the duty of making provision for the retirement of the state's indebtedness. Legal safeguards relating to state debts have been set up and the state is definitely committed to a policy of debt retirement.

LOCAL DEBT

County Indebtedness.—There has also been a marked increase in the amount of borrowing done by the counties in the state. Money has been borrowed largely for county roads and bridges. Indebtedness of counties as evidenced by the amount of bonds and warrants outstanding, was 62 per cent greater at the end of the fiscal year, June 30, 1926, than it was on June 30, 1919. All of this increase took place during the first four years of the period, from 1919 to 1922 inclusive. During the past four years, the amount of bonds and warrants outstanding in the counties has been on the average seven and one-half million dollars each year, or approximately $11.25 per capita.

As shown by Table XXIV, the amount of outstanding debt varies greatly as between counties. At the end of the fiscal year, June 30, 1926, there were sixteen counties in the state that had no outstanding debt of any kind. On the other hand, there was one county that had an outstanding debt of $768,000, or about $120 per capita. Much of the debt in this county has been incurred for irrigation projects. In general, it would seem that a county with a small per capita debt is living within its income to a greater extent than the county with a large per capita debt. A small per capita county debt may also indicate that greater reliance is placed upon direct taxation for financing roads, bridges, schools, improvements, etc. The per capita debt of any county may also reflect the character of the county administration—its efficiency or lack of it, its judgment as to whether the purpose for which money is borrowed is justified on the basis of economic return from such an investment, the timeliness and urgency of the objects for which money has been borrowed.

Further, there seems to be a tendency in the state to rely on loans rather than on taxes for financing such projects as roads, schools, public buildings, etc. Property taxes are already burdensome in South Dakota, and the disposition seems to be to raise the money required by a bond issue. This will not, of course, lighten the burden of such expenditures in the end, but the indebtedness is incurred in such a way that some of the burden of carrying it is apparently concealed to the average person.

Public school indebtedness.—Total outstanding indebtedness of rural, independent town and city schools, and consolidated schools, increased, on the average, 218 per cent during the period from 1919 to 1926 inclusive. Outstanding indebtedness of rural school districts increased 121 per cent; independent town and city school districts, 213 per cent; and consolidated school districts, as much as 458 per cent. Eighty per cent of the outstanding indebtedness was in the form of bonds, and the remaining 20 per cent was in the form of warrants. The former was largely incurred for the building of school houses, and the

Table XXIV.—TOTAL OUTSTANDING DEBT BY COUNTIES IN THE STATE OF SOUTH DAKOTA FOR THE FISCAL YEAR ENDING JUNE 30, 1926.*

Name of County	Warrants Outstanding	Bonds Outstanding	Total Outstanding Debt
Aurora	5,884	-----	5,844
Beadle	-----	290,000	290,000
Bennett	147,233	-----	147,233
Bon Homme	-----	14,000	14,000
Brookings	1,472	25,000	26,472
Brown	22,964	-----	22,964
Brule	-----	55,000	55,000
Buffalo	14,701	-----	14,701
Butte	387,540	381,000	768,540
Campbell	-----	-----	-----
Charles Mix	-----	150,000	150,000
Clark	20,950	-----	20,950
Clay	-----	-----	-----
Codington	-----	-----	-----
Corson	319,624	40,000	359,624
Custer	43,135	85,000	128,135
Davison	-----	25,000	25,000
Day	-----	-----	-----
Deuel	482	94,500	94,982
Dewey	115,284	81,000	196,284
Douglas	-----	115,000	115,000
Edmunds	29,091	130,000	159,091
Fall River	190,716	175,100	365,816
Faulk	90	-----	90
Grant	6,494	15,000	21,494
Gregory	28,453	80,000	108,453
Haakon	71,232	-----	71,232
Hamlin	8,285	40,000	48,285
Hand	-----	-----	-----
Hanson	-----	-----	-----
Harding	1,734	155,000	156,734
Hughes	50,774	70,000	120,774
Hutchinson	-----	-----	-----
Hyde	10,000	34,000	44,000
Jackson	246,793	10,000	256,793
Jerauld	-----	-----	-----
Jones	15,643	10,000	25,643
Kingsbury	-----	-----	-----
Lake	-----	-----	-----
Lawrence	500,758	159,000	659,758
Lincoln	-----	-----	-----
Lyman	252,276	130,000	382,276
McCook	-----	-----	-----
Marshall	-----	24,000	24,000
Meade	169,640	-----	169,640
Mellette	363,746	25,000	388,746
Miner	-----	-----	-----
Minnehaha	249,649	-----	249,649
Moody	-----	35,000	35,000
Pennington	-----	500,000	500,000
Perkins	132,432	24,000	156,432
Potter	10,000	76,000	86,000
Roberts	2,290	-----	2,290
Sanborn	-----	30,000	30,000
Spink	38	-----	38
Stanley	181,243	-----	181,243
Sully	35,000	15,000	50,000
Tripp	94,257	400,000	494,257
Turner	-----	-----	-----
Union	-----	-----	-----
Walworth	13,147	100,000	113,147
Yankton	-----	600	600
Ziebach	51,499	74,000	125,499
Total	3,794,549	3,667,200	7,461,749

*Annual Report of the State Auditor for the fiscal year ending June 30, 1926.

latter for temporary or short-time financing. Bonded indebtedness increases more rapidly than warrant indebtedness. The former increased, on the average, 248 per cent for all types of schools, and the latter 122 per cent, for the above period. Independent town and city school districts and consolidated school districts had a relatively larger bonded debt than did rural schools, during the period. On the average, 88 per cent of the total debt of the former for the period, was bonded, while during the same period, bonded debt for rural schools was 65 per cent of the total. Table XXV gives the total outstanding debt by types of public schools in South Dakota for the years 1919 to 1926 inclusive.

Municipal indebtedness.—There are incorporated places in South Dakota, like Lead in the western part of the state, and Webster in the eastern part, that have no outstanding debt at all. There are other incorporated places whose per capita net debt is over $100. Indebtedness has been incurred for various purposes. Over one-half of the indebtedness of Huron is made up of City Hall bonds; over one-half of Watertown's indebtedness is made up of electric light plant bonds; about one-third of the indebtedness of Rapid City and one-half of that

Table XXV.—TOTAL OUTSTANDING DEBT OF PUBLIC SCHOOL DISTRICTS IN THE STATE OF SOUTH DAKOTA FOR THE YEARS 1919 TO 1926, INCLUSIVE.*

YEAR	Warrants Outstanding (000)	Bonds Outstanding (000)	Total Outstanding Indebtedness (000)
Rural Schools—			
1919	704	1,057	1,761
1920	683	902	1,585
1921	1,317	1,116	2,433
1922	1,400	1,584	2,984
1923	1,295	1,992	3,287
1924	1,327	2,277	3,604
1925	1,314	2,397	3,711
1926	1,375	2,523	3,898
Independent Schools—			
1919	646	3,154	3,800
1920	966	4,266	5,232
1921	1,450	7,047	8,497
1922	1,355	7,878	9,233
1923	1,267	9,265	10,532
1924	1,466	9,911	11,377
1925	1,447	10,293	11,740
1926	1,493	10,401	11,894
Consolidated Schools—			
1919	169	623	792
1920	399	1,323	1,722
1921	699	2,801	3,500
1922	743	3,524	4,267
1923	708	3,954	4,662
1924	656	4,026	4,682
1925	586	3,942	4,528
1926	506	3,912	4,418
All Schools—			
1919	1,519	4,834	6,353
1920	2,048	6,491	8,539
1921	3,466	10,964	14,430
1922	3,498	12,986	16,484
1923	3,270	15,211	18,481
1924	3,449	16,214	19,663
1925	3,347	16,632	19,979
1926	3,374	16,836	20,210

*Annual Reports of the Superintendent of Public Instruction for the years, 1919 to 1926, inclusive.

of Redfield was incurred for city waterworks. Indebtedness has been incurred also for funding and refunding purposes, and for city auditoriums as in Milbank and Miller. Approximately 90 per cent of the indebtedness of the city of Artesian is in the form of sewer bonds. Towns and cities have relatively little floating debt. Almost all of their debt has been incurred for the more permanent needs as indicated above.

FISCAL ADMINISTRATION IN SOUTH DAKOTA

The Organization and Administration of the Department of Finance

The state legislature, during the 1921 session, appropriated $25,000 for the purpose of making an efficiency survey of the state institutions, departments, and agencies. In accordance with that action, such a survey was made by the New York Bureau of Municipal Research. The result of the survey was a detailed recommendation for a comprehensive and complete reorganization of the state government. At the 1925 session of the state legislature, a reorganization act was passed which provided a code of laws relating to the civil government of the state. Provision was also made for their administration. It became known as the Civil Administrative Code of 1925. It embodies, so far, only two departments, the Department of Agriculture, and the Department of Finance, the two departments consolidating a total of twenty-seven former departments, boards, commissions, and agencies. The Department of Agriculture is not connected with the fiscal administration of the state and its functions and, therefore, will not be described.

The Department of Finance took over the duties that were formerly imposed upon the Executive Accountant, the Board of Accountancy, the State Budget Board, the Commissioner of Public Printing, the Superintendent of the State Capitol, the Tax Commission, the State Board of Equalization, the Capitol Commission, and the Committee on Uniform Accounting.

This Department is administered by the Secretary of Finance, and consists of the following four divisions: Audits and Accounts, Purchasing and Printing, Employment, and Taxation. The Secretary of Finance, with the consent and approval of the Governor, appoints a director at the head of each division. The directors have general powers in co-operation with and under the direction of the Secretary of the Department.

The state auditor is ex-officio Director of the Division of Audits and Accounts. He examines and supervises the books, accounts, and reports of all state officers, departments, agencies, boards and commissions of the state; he audits all accruals and collections and all expenditures by any and all state departments; he investigates all claims presented for payment; he prepares financial statements and gathers data for the budget; and he prescribes a uniform system of bookkeeping, accounting, and reporting for the several departments.

The Director of Purchasing and Printing purchases or supervises the purchasing of all printing, stationery, and supplies other than those excepted by law, for each department of the state government, for state

institutions and for other state agencies. At different times throughout the year he receives estimates of the amount and kind of supplies needed by state departments, state institutions and state agencies. He is empowered by law to change or modify these estimates. He then asks for bids which are submitted on blanks furnished by the Director of Purchasing and Printing. The successful bidder must enter into contract with the state to furnish the supplies in accordance with the schedule and specifications prescribed. The Director is given such powers as that of purchasing in larger quantities when it appears that a lower quantity price can be secured.

The Director of Employment keeps a classified record of all officers and employees in all state departments, institutions and agencies; he keeps a classified record of work performed in the various state departments, institutions and agencies; he establishes minimum essentials of efficiency for the various types of employment; he establishes a system of efficiency ratings for all employees and keeps a record of them in his office. He also establishes an equitable salary scale for all employees and approves all payrolls of employees, before they are transmitted to the Director of Audits and Accounts, whose duty it is to audit such payrolls before payment is made.

The Director of Employment is the superintendent of the State Capitol and has control, management and supervision of the buildings and grounds. The Capitol Commission has been abolished and all powers, duties and jurisdiction formerly vested in it have been taken over by the State Department of Finance.

The Director of Taxation, under the general supervision of the Secretary of Finance, now performs all the duties that were formerly imposed by law upon the State Tax Commission. He may, with the consent and approval of the Secretary of Finance and the Governor, appoint an Assistant Director.

The Secretary of Finance, the Director of Taxation, and the Assistant Director of Taxation (if one is appointed, if not, the Director of Audits and Accounts) constitute a Board of Equalization for the state. Among the duties of the Secretary of Finance relating to the state budget and the condition of the state's finances, are the following: The Secretary prepares and reports to the Governor, when requested by him, estimates of the income and revenues of the state. He publishes from time to time bulletins showing the financial condition of the state and its various departments, agencies, and institutions. He also prepares and submits to the Governor biennially, a state budget. So important is the part played by budgeting practices in fiscal administration today in most of the commonwealths of the United States, it would seem well to consider the State Budget in South Dakota in some detail. The county budget system which has just been established in South Dakota will also be considered.

Budgetary Practices

For the state.—Previous to 1927, South Dakota had what is known as the legislative type of budget. A state budget board was created by law in 1917. It was the duty of this board to meet once every biennium

and prepare estimates of the amounts required to be appropriated by the legislature for the support of state departments and institutions for the next two years. Before making such estimates, the board examined all statements and requests for appropriations presented to it by such departments and institutions. The budget board then submitted these estimates to the legislature, together with estimates of anticipated revenues of the state, amounts of all unexpended balances, and recommendations as regards the disposition of such revenues and unexpended balances. Thus, the legislative type of budget began with the spending agencies. The needs of state departments and institutions were first ascertained and from these requests, the budget board made recommendations to the legislature.

South Dakota has now an executive type of budget. The first one of its kind was presented before the state legislature at its twentieth session in 1927. It was a budget based upon the revenue available from all sources for the next biennium as estimated by the division of taxation. The estimated revenue is apportioned among the spending authorities which the state budget board has divided into three groups—educational institutions, charitable and penal institutions, and state departments. The apportionment is based on the percentage that each group has received of the total appropriations over a period of years. Prior to 1927, the needs of such institutions and departments were ascertained and then from these requests the state budget board made recommendations to the state legislature. According to the present law affecting the state budget, governing boards of the institutions are required to apportion among the respective institutions under their control the amount apportioned for their group. Similarly, department heads are required to make apportionments among the different divisions which make up the department. If the amounts thus apportioned are insufficient to meet the needs of the institutions and departments, it is the duty of the legislature to provide new sources of revenue or to increase the general tax levy, or to reorganize or readjust the spending authorities in such a way that the estimated revenue available will cover the expenditures for the next fiscal period.

As already mentioned, South Dakota has an executive budget, and as the name implies the Governor is the chief budget officer. On or before October 15, in the even numbered years, all departments, bureaus, commissions, or other agencies of the government, are called upon to submit to the Secretary estimates of all receipts from all sources and needs of all departments for the ensuing biennium. A comparison of such estimated receipts and expenditures with receipts and expenditures for the last two preceding bienniums is also submitted. The various departments and institutions are also called upon to furnish any other information the Secretary of Finance may require.

The Governor and the Secretary of Finance have the authority to examine the books and records and to make investigations into the operation of any departments, institution or commission of the government. After the above department reports are filed, the Governor and the Secretary of Finance hold public hearings at which the heads of departments, institutions and commissions may be heard in relation to matters in the reports.

Using these department reports as a base, the Secretary of Finance prepares an itemized statement called the budget report, and submits it to the Governor on or before the fifteenth day of November in the even numbered years. It gives in considerable detail estimates of revenue for the ensuing biennium, and balances standing to the credit of past appropriations, a comparison of estimated receipts with receipts for the last two preceding bienniums, a comparison of the estimates made with the requests of the different departments, appropriations made during the two preceding bienniums, estimated appropriations necessary to meet requirements of institutions and departments for the next biennium, and statements showing the condition of the state's finances.

The Governor bases his budget on the budget report of the Secretary of Finance. The budget as submitted to the legislature by the Governor is also an itemized statement of estimated revenues, expenditures, past appropriations, amounts requested by departments and institutions, and recommended appropriations. Printed copies of the budget are submitted by the Governor to the presiding officer and members of each house within five days after the beginning of each regular session of the state legislature. Along with the budget the Governor submits printed copies of the statement and report made to him by the Secretary of Finance.

At the same time as the Governor submits his budget, he also submits a bill for all proposed appropriations properly embodied in what is called the general appropriations bill. At the same time, he also presents to each house of the Legislature proposed special appropriation bills for items of recommended expenditures not included in the general appropriation bill.

In case of a change of administration, the outgoing Governor delivers the budget to the legislature with his message, and the incoming Governor has ten days in which to review the budget as prepared and delivered by his predecessor, and he may send to the legislature a supplementary budget message, making suggestion for any changes which he deems wise. As will be seen this places very great power in the hands of the Governor, and involves a correspondingly heavy responsibility on his part.

For the county.—South Dakota now has a county budget system. The law creating it was passed by the State Legislature during its twentieth session, 1927, and became effective July 1, 1927. Just as in the case of the state budget system, so the purpose of the county budget system is to secure a balance and control of county revenue and expenditures and also to insure the proper custody and safekeeping of county funds. The law not only controls and regulates the raising of revenue and expenditure thereof, but it also provides for the approval and adoption of annual budgets of county expenditures. It also provides for temporary loans secured by delinquent taxes and the creation of a delinquent tax fund. It prescribes the manner of paying claims filed after the expiration of the fiscal year. It provides for the raising of revenue, in addition to budget estimates and appropriations, by taxation, and for the payment of warrant indebtedness outstanding at the close

of each fiscal year. One of the most important features of the law is that expenditures in excess of appropriations as set out in the annual budget are unlawful.

The law requires the county auditor to supply the county commissioners with information for use in making up a provisional budget before the first day of June each year. The county auditor is required to furnish detailed statements of the amount of revenue likely to be received from any source during the following fiscal years; the amounts likely to be received during the current fiscal year; estimated balances that are likely at the end of the year; and the debts and liabilities incurred during the year. From this information the county commissioners must adopt a provisional budget and file it in the office of the county auditor between July 1 and 15, of each year.

This provisional budget is published in full for two successive weeks in the official newspaper of the county. Notice is also given that the board of county commissioners will meet the first Tuesday in August for the purpose of considering the budget and the various items, appropriations, and matters contained in it. At this meeting, all persons interested may appear and will be given an opportunity for a full and complete discussion of all the purposes, appropriations, and matters set forth in the provisional budget. This meeting may take the entire week, but it must be fully concluded on the second Tuesday in August.

At this meeting, the provisional budget may be changed by the board, but all changes must be made prior to its final approval and adoption. The law prohibits any changes by the county commissioners or anyone else after the budget has been adopted and approved. In its final form, the total appropriations requested must not exceed 95 per cent of the amount of all estimated revenues to be received during the next fiscal year which begins on the following January 1.

The county budget law also calls for reports from the county treasurer and the county auditor. The county treasurer's report must cover the amounts of money received and the accounts to which it was credited. The auditor's report is a detailed statement of all appropriations during the past year; the amounts expended from each fund, an estimate of the amount of claims or liabilities incurred during the past year; and the balances in each fund at the close of the past fiscal year.

In the event that delinquent taxes for the preceding year amount to more than five per cent of the total amount of taxes levied, the board may adopt a resolution providing for the borrowing of money in an amount equal to the excess of the delinquent taxes over 5 per cent. This will creat a "delinquent tax fund," to which the delinquent taxes will be credited as fast as they are received. This will be used for the payment of principal and interest on the certificates of indebtedness used to borrow money. Taxes will be levied on September 1 for the difference between the total amount of revenues likely to be received from sources other than taxes on real and personal property and the total amount of appropriations for the next fiscal year, with 5 per cent of the appropriations added, provided that the total levy does not exceed the limitations now in effect.

Depositary Arrangements.—Depositaries in which funds belonging to the state shall be deposited, are designated by the State Board of Finance. Such depositaries must furnish a good and sufficient surety bond of an approved surety company for the payment of such deposit and the interest thereon. In lieu of a surety bond, there may be deposited by depositaries so designated, bonds, certificates of indebtedness, treasury certificates, or bonds of the federal or state governments. In which case, the par value of these securities must equal at all times the amount of funds on deposit. Moreover, if these securities so deposited fall below par, the depositary is called upon for a margin sufficient to cover the deposit made by the state. A wider margin—not less than ten per cent over and above the amount of money on deposit—is necessary whenever the depositary has deposited bonds of any school district, municipality, or other local political subdivision.

In a similar way, depositaries for county funds are designated by the county commissioners. All such money is deposited in the name of the county treasurer and is subject to payment when demanded by him on his check. County funds may be left with depositaries located outside the county, if interest, required financial standing, and other conditions are not met by banks within the county. At the beginning of each month, all such depositaries must file with the county treasurer, a report of interest earned on the money deposited. The making of a profit by a county treasurer himself out of such public money, is deemed a felony. County treasurers must also furnish monthly statements of all moneys paid into the county treasury and which is due and payable into the state treasury. Depositaries for township funds are designated by the board of supervisors; for municipal funds by the boards of trustees, or by the mayor and common council, or by the boards of commissioners; and for school funds by the school board. All such depositaries must have approved and responsible financial standing.

FACTORS TO BE CONSIDERED IN FORMULATING TAX POLICIES

Some of the increase in public expenditures that has been noted is natural in all states like South Dakota which are in the earlier stages of development. Many schools, highways, bridges, court houses, etc., are being built and constitute an accumulation of public property which is going on at a very rapid rate in South Dakota.

The rising price level in recent years also accounts for some of the increase, since more money must be paid for the same amounts of goods and services.

Increasing public expenditures do not necessarily mean a heavier burden for the people of the state providing the fund or the income out of which these expenditures eventually come increases in a corresponding ratio. The population of South Dakota was approximately the same in 1915 as in 1910, at 584,000. By 1920 it had increased to 636,000 and by 1925 to 681,000, an increase of 17 per cent over that of 1910. Total income likewise was increasing during the period from 1910 to 1920. However, total direct taxes in South Dakota, which may be taken as an approximate index of public expenditures increased 257 per cent between 1910 and 1925.

It is often stated that an increase in population would considerably lessen the tax burden of the people of South Dakota. In some respects that is true. However, it should be borne in mind that public expenditures, especially for schools, government, etc., increase to some extent as population increases. The real question as to the burden of taxes is that of the relation between governmental costs and the net income of the people of the state. If additional people increase the state's net income in proportion to such increase in population, they will tend to lessen the tax burden. However, mere numbers of people do not in themselves insure prosperity as may readily be ascertained by a visit to the poorer sections of any large city.

In recent years, a rising level of tax payments in South Dakota has been accompanied by a tremendous shrinkage in income and also by heavy increases in payments for interest on recently acquired individual debts. These conditions have caused taxes to become disproportionately large in relation to the net income of individuals. Just as a decrease in individual incomes has increased the proportion taken by taxes, so also an increase in these incomes would automatically reduce the proportion taken by taxes. The fund out of which increased public expenditures are met, in other words the income of the state, has grown much more slowly than have public expenditures in South Dakota. The same may be said of population, though, as indicated above, the relation of taxes to state income is much more important than the relation of expenditures to population.

Assessed values in South Dakota are largely agricultural values. The wealth of the state is principally agricultural. Hence the state and local governments must look largely to the agricultural industry for their revenue. The general property tax is, however, a more important source of revenue for local government than for the state government.

The state derives its revenue from various sources—not only from general property taxes, but from school and public lands, from the federal government, from fees, from state enterprises, and from miscellaneous sources. The county and minor subdivisions, on the other hand, derive the major share of their revenue from general property taxes.

The general property tax is a tax levied on the assessed valuation of all property in the state. This is of special significance in an agricultural state like South Dakota where most of the taxable wealth consists of farm real estate and livestock. Thus, much of the burden of increased public expenditure falls upon the owners and operators of farm land in the state. For the fiscal year ending June 30, 1926, 69 per cent of the total final valuation of all property in the state of South Dakota consisted of agricultural land. In marked contrast with the more industrialized states in the east, state assessed public utilities made up only 7 per cent of the total final valuation of property. Personal property made up 10 per cent, city real estate and mineral lands another 10 per cent, and money and credits 4 per cent. Farm property not only constitutes the major share of the total valuation of all property in the state of South Dakota, but farm real estate is susceptible to a more complete evaluation by assessors than are the newer and more diversified forms of wealth.

With two-thirds of the taxable wealth of the state in the form of farm lands as indicated above there is relatively little opportunity for very much relief through a shift from one group to another under the general property tax, even if the results showed any material difference in the relative burdens of tax borne by the various classes of property. It is desirable that some further comparisons be made of the tax burdens for similar purposes borne by different classes of property within the state. However, certain inequalities are inherent in the property tax which have not so far been successfully met by any method of assessment or equalization that has been devised.

The general property tax was fairly equitable in the early stages of American history when nearly all property that was owned was tangible property. With the growth of coroporate methods of business, of forms of investment which made possible safe investments at long distance, and the development of various other provisions which make possible the ownership of considerable amounts of property which cannot be readily located or evaluated by the assessor, there has been for several decades an increasing tendency to place the main burden of government and public activity upon visible property, especially upon real estate. There is considerable doubt as to whether the intangible forms of property can be sufficiently reached to make them bear their proportionate share of the costs of public activties. Many people who do not accumulate any considerable amount of tangible property enjoy all of the privileges of government, of the school system, of a high standard of living, etc. It would seem that a part of the burden now placed upon tangible property might properly be more equitably distributed by the use of additional taxes like those which have recently been placed upon motor fuels and cigarettes. The motor fuel tax has served to remove completely the maintenance and construction of state

roads from the general property tax, and has placed the burden of this expense where it will be paid much more in proportion to the benefits received than if it were paid through general property taxes.

Some part of the cost of maintaining the school system, from which nearly everyone benefits directly, might very well be borne by certain additional taxes of this type such for instances as those upon soft drinks, upon theater admissions, and upon cosmetics, all of which could be collected through the same agencies that now collect the gasoline and cigarette taxes and at comparatively little additional cost.

In general, the use of larger taxing units would tend to lessen inequalities of tax burden and would lessen administrative costs. This is especially true as to country school districts.

Revision of the tax laws so as to provide for the same conditions as to selection and supervision of city assessors as apply to county and township assessors would also make for greater uniformity in assessment. At present, county and township assessors are elected while many of the city assessors are appointed and do not often take office until after the state tax commissioners have held their spring meetings with the county and township assessors.

In considering tax problems it is necessary to recognize that unintelligent economizing may be short-sighted policy. With the growth of combination in business enterprises, more regulation than was formerly provided for is necessary to avoid monopolistic conditions. Considerable competition exists between areas and states in such matters as transportation rates, etc. Inadequate protection of the state's interest in matters of this kind may easily cost, in discriminatory rates, immensely more than the cost of such bodies as the State Railroad Commission. In like manner the problems of equalization of taxes within the state, of collection of inheritance taxes, etc., make active and capable state tax officers esential. Likewise, the state may easily lose thousands, if not millions, of dollars through inadequate administration of such offices as those of the Attorney General and the Rural Credits Board. The most desirable condition is therefore one which, while providing for a minimum of governmental activity, yet provides for adequate and efficient activity in those branches where intelligent self-interest shows it to be necessary.

It is generally conceded that American industry is efficient and that state and local governments are not. The question arises as to whether it would be feasible to introduce more of those things into government which make for efficiency in industry. The latent possibilities in a man to take on more work without injury to himself have long been recognized by commercial concerns. It would seem that higher salaries to fewer state and local government officers who are willing to put forth more effort for the increased remuneration involved would make for lower costs in state and local government. Realizing the value of experienced help, commercial concerns strive to keep their labor turnover small and to have as few changes in the management as possible. Continuity of service in government work is lacking. Very often at the end of two years, government employees who have, through experience, become valuable, must resign because of a change in the administration.

This cannot result otherwise than in inefficiency. It is well to emphasize, however, that costs of government constitute a relatively small proportion of the total state and local expenditures. The only possibility of any relatively large reduction in taxes levied must come from spending less on such major purposes of state and local activity as highways and education. However, possibilities of lessening governmental costs should not be ignored.

One of the marked economic trends in the commercial world today is the tendency toward consolidation. Just as there is a most economical unit for efficient operation and able administration in commercial organizations so there must be in government a unit that avails itself most fully of the labor and other factors involved in the rendering of that service. The people of the state themselves must decide what that unit is, but certainly the county unit plan of evaluation or assessing property is worthy of consideration. It would also seem that the school districts organized along township lines would result in greater efficiency and equality. Probably consolidation of duties and offices within a county is more feasible than consolidation between counties in a state like South Dakota, which has passed the initial stages of development.

There is a field for consolidation in the business of state and local governments provided it results in more than a mere consolidation of offices and officers under one head where they might be no more economical and efficient, but might simply become a more powerful political machine. Consolidation in state and local governments should mean the absence of any overlapping of work, economy in administration through smaller number of offices and officers and a closer co-ordination of work as between different departments and offices. Here, however, considerable discretion is necessary. Consolidation in a statewide way of activities which can better be carried on locally may actually increase expense instead of lessening it.

The aim of the writer has been to give an accurate and impartial presentation of the facts concerning the public finances of the state and local governments in South Dakota. It was shown that property taxes have been cutting deeply into the farm income, and that state and local indebtedness is relatively large. On the other hand, there is a recent tendency for state and local governments to put their finances into shape. At the recent session of the state legislature, a county budget system was adopted which should bring about a proper balance and control of county revenue and expenditures. Moreover, property owned by educational, religious, charitable and penal institutions, has been removed from the exemption list under certain conditions—particularly when such property is used for commercial purposes and as a source of revenue. This will make for a more equitable distribution of taxes and also widen the tax base. Thus the problems of public finance in South Dakota are being at least partially solved. The real problem, however, which has confronted the people of South Dakota, arises from the fact that an extensive program of development—of highways and bridges, of education, of social welfare—was begun shortly after the war. It has proven difficult to finance this out of the relatively small agricultural returns in recent years. The free play of economic forces will eventually

put agriculture in a more healthy condition. In the meantime, developmental programs should be carried on only as rapidly as the people of the state are financially able to bear the expense.

In considering any program of taxation policy it should be recognized that, so far as real estate and other property is concerned, it is the changing proportion of the income taken for taxes that causes the hardship nearly as much as the actual level of taxes themselves. People purchase land on the basis of its existing earning power over and above taxes plus probable future increases in its value. If the existing tax level is high, the valuation given to the land is correspondingly lower; and, if the land has been bought on that basis, there is not necessarily any great hardship involved so far as the new owner is concerned. However, if the land is bought on the basis of a certain level of taxation and later this amount of taxation is sharply increased or the value of its product is sharply decreased, the result is that the owner of the land has lost a part of the value of his land. If he sells it, it will have to be sold at a correspondingly lower price. He is, however, more likely to keep it, holding it at the old price, and taking a lower return on his investment.

*"It is the man who holds property upon which an unanticipated tax is levied who pays the abnormal rate of taxation. When this property is sold to another who pays less than the former owner anticipated receiving, the abnormal tax disappears and the property is assessed at its new selling value. Until farms and real estate are capitalized so that a reasonable rate of return is left after a reasonable wage is allowed, they will continue to pay the abnormal rate" (unless the total amount of tax is lowered in the meantime).

*From Wisconsin Bulletin 393 by B. H. Hibbard and B. W. Allin.

SUMMARY

Public Revenue.

1. The state government of South Dakota derives, on the average, 26½ per cent of its total revenue from the general property tax, 25½ per cent from special or excise taxes, 25 per cent from the rent of investment properties held by the state, and interest on the various funds of the state government, 11 per cent from the federal government, 6 per cent from fees, and 6 per cent, or the remainder, from state enterprises and miscellaneous sources.
2. The general property tax is the principal source of revenue for all counties, townships, cities, and school districts in South Dakota.
3. In the localities studied, taxes absorbed, on the average, 28 per cent of the net income from farm real estate, and 29 per cent of the net income from city real estate, during the period, 1919 to 1926 inclusive.

Public Expenditure.

1. During the fiscal year ending June 30, 1926, state governmental costs incurred for state highways and bridges in South Dakota

were \$8.12 per capita, or 29 per cent of the total governmental costs; for education, \$6.06 per capita, or 22 per cent; for interest, \$4.99 per capita, or 18 per cent; and for state government, \$2.94 per capita, or 10½ per cent of the total state governmental costs.

2. During the period, 1919 to 1926 inclusive, the state levied, on the average, 16 per cent of the total property taxes on farm real estate in South Dakota, the county 33 per cent, and the township and school district, 51 per cent. During the same period, the state levied, on the average, 6 per cent of the taxes on city real estate, the county, 15 per cent, and the municipality, 79 per cent.
3. During this same period, education, both local schools and state institutions, took 42 per cent of the farm tax dollar, state and local roads and bridges, 27 per cent, and state and local government, 20 per cent of the farm tax dollar—a total of 89 per cent for these three purposes. Education took 45 per cent of the city tax dollar, state and local government including city streets 42 per cent, and state and local roads and bridges other than city streets 8 per cent—a total of 95 per cent for these three purposes.

Public Indebtedness.

1. At the close of the fiscal year ending June 30, 1926, South Dakota had a net debt of \$17,172,000, or \$25.07 per capita. Only four other states in the Union had a per capita net debt greater than this. Oregon, with \$43.61 per capita, had the largest per capita net debt. North Carolina followed with \$42.03 per capita, Delaware \$34.33, West Virginia \$28.85, and South Dakota \$25.07.
2. South Dakota has a relatively small floating debt; most of her indebtedness has been incurred for the more permanent needs like highways, and for such purposes as state land settlement, the cement plant, and soldiers' compensation.

Fiscal Administration.

1. South Dakota has an executive type of budget which is based upon the revenues available for the next fiscal period as estimated by the division of taxation.
2. A county budget system was created by a law passed by the state legislature in 1927. Its chief purpose is to secure a balance and control of county revenues and expenditures.

DATES FOR THE PROPERTY OWNER TO REMEMBER

Although property may be assessed any time during the months of May or June, the first of May is the date fixed by statute for determining the existence, ownership, value and liability to taxation, of both real and personal property.

All unpaid taxes become delinquent on the first day of May of the year after which taxes are assessed, unless one-half of the taxes due are paid by the last day of April of the year after which such taxes are assessed. In the latter case, the balance of taxes due, are not delinquent until the first day of the following November.

Any property owner who may feel aggrieved at the valuation placed upon his property by the local assessor may present his case before the local board of review which meets on the fourth Monday in June of each year. The local board of review is made up of the board of supervisors in the case of a township, of the board of trustees in the case of incorporated towns, and of the board of aldermen or commissioners, in the case of cities.

Any property owner feeling aggrieved may appeal from the decision of any such local board of any city, town, or township, to the board of equalization of the county in which such city, town, or township is situated. The county board of equalization is made up of the county commissioners and meets the first Tuesday in July of each year.

Property owners have the right of appeal to the Division of Taxation, Department of Finance, from any action taken by the board of County Commissioners. The Secretary of Finance, the Director of Taxation, and the Assistant Director of Taxation sit as a state board of equalization, commencing on the first Monday of August each year. An appeal from any decision of the Division of Taxation may be taken by the person aggrieved to the circuit court in and for the county in which the property in question is assessed.