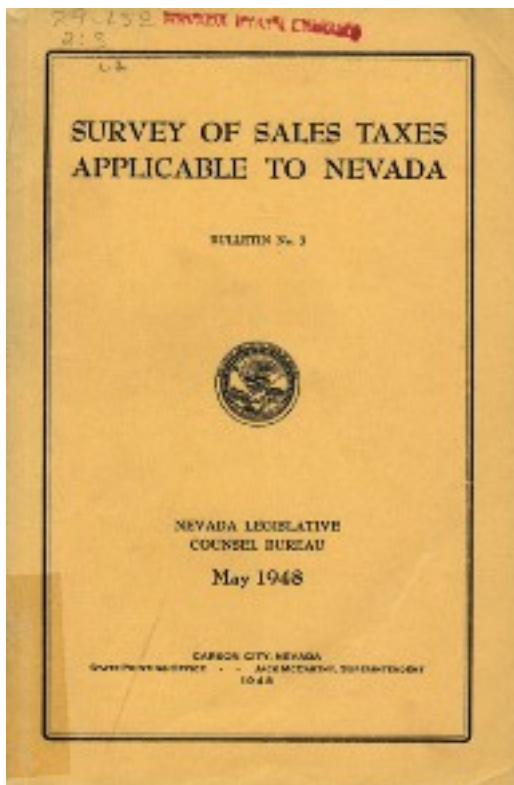


Myth 144: One Unsound State

By Guy Rocha, former Nevada State Archivist

The "One Sound State" was not so sound after World War II.



The smallest state in the union boomed with the influx of newcomers and Nevada military veterans returning home and starting families. New students, without the baby boomers yet in schools, inundated Reno and Las Vegas area classrooms.

Health care facilities were generally outdated and inadequate.

Social welfare programs were practically non-existent.

While Nevada did impose a 1 percent tax on the gross winnings of gambling-license holders in 1945, and another 1 percent in 1947, the revenue generated was not enough to keep pace with the infrastructure demands created by exponential growth.

"Nevada likes to call itself 'the one sound state,'" renowned author John Gunther wrote in his book, *Inside U.S.A.* (1947), "and postcards are available pointing out that it has no retail sales tax, no corporation tax, no state income tax, no inheritance tax-'and no thumb tax' on the roads.

But the inadequacy of the schools and hospitals makes this boast a mockery."

With Nevada seemingly bursting at the seams, the newly-created Legislative Counsel Bureau ordered Legislative Counsel Jeff Springmeyer on November 7, 1947 to make a study of sales taxes throughout the country and the world. The final report in May 1948 noted that "Sales taxes, first widely adopted in the United States during the depression of the 'thirties, are now imposed by twenty-seven states and the Territory of Hawaii, and provide the largest single source of State revenues. Eleven states, however, have nullified or abandoned this form of taxation, four after popular referenda."

The in-depth study concluded "the State sales tax is lucrative, feasible if not easy to administer, and regressive.

The controversy hinges on the desirability, in each jurisdiction and in the Nation as a whole, of adding to or lessening the tax burden of middle and low-income groups."

Despite the efforts of Assembly Majority Leader Harry Claiborne, a sales tax bill introduced in 1949 lost by a narrow margin on the Assembly floor. Legislation approved that legislative session providing for a freeport tax exemption, whereby all inventories held for resale within or

outside the borders of the state were tax-exempt, sparked a warehousing boom.

However, as with the 2 percent tax on gambling, the revenue generated by the new industry was inadequate to meet the growing need for new infrastructure in Nevada.

Republican Charles Russell soundly defeated incumbent Democrat Vail Pittman in the 1950 race for governor after pledging no new taxes. The 1951 legislature followed suit and avoided raising taxes.

The late Mary Ellen Glass wrote in *Nevada's Turbulent '50s* (1981), "A narrow tax base and a general lack of enthusiasm among the legislators for new or revised taxes combined to bring about what ultimately became a genuine crisis."

By the time the 1953 legislature opened, the baby boom in Nevada was overwhelming the elementary schools. At the same time, newcomers continued to flood into the state, most of them moving to greater Reno or Las Vegas. In response, the legislature passed an appropriation for education higher than the governor recommended, but less than educators requested.

Governor Russell, recognizing the ever-growing crisis with mushrooming school enrollment in the 1953-54 school year, created the Governor's School Survey Committee. In addition, the governor called the seventh special session in state history proclaiming, "Enrollment in the schools of many counties has been increasing so rapidly during the last several years that collapse of the elementary and high school education system, due to deficit spending, is a distinct threat."

Besides the approval of emergency funds to operate the schools, the special legislative session appropriated \$25,000 for a study of the school crisis. The Peabody Report, prepared by a team of professionals from the George Peabody College for Teachers, recommended basic support funding formulas and the consolidation of the more than 200 school districts into seventeen county-based districts.

The 1955 legislature reorganized the school districts, enacted the Peabody formulas, and passed a 2 percent sales and use tax. Governor Russell, who had dropped his no new tax pledge in his 1954 reelection campaign, promised to help the schools.

He signed the bill.

The tax fight was not over however. An initiative petition to repeal the sales and use tax found its way onto the November 1956 general election ballot. Nevada voters overwhelmingly supported the new tax by a vote of 60,685 to 27,499. N

Arguably that vote sounded the death knell for Nevada's twenty-year-old "One Sound State" economic policy aimed at attracting the country's wealthiest citizens to Nevada as a tax shelter.

Photo credit: Cover of 1948 report by the Legislative Counsel Bureau on the *Survey of Sales Taxes Applicable in Nevada* courtesy of the Nevada State Library.

The Historical Myths of the Month are published in the *Reno Gazette-Journal*; the *Sierra Sage*, Carson City/Carson Valley; the *Humboldt Sun* ; the *Battle Mountain Bugle* ; the *Lovelock Review-Miner* , and the *Nevada Observer* (online version).