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**WILBUR O. HEDRICK**

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THE HISTORY OF RAILROAD TAXATION IN MICHIGAN

A thesis submitted to the Faculty of the Department of Literature, Science and Arts of the University of Michigan, for the degree of Doctor of Philosophy.

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BY

WILBUR O. HEDRICK,

PROFESSOR OF HISTORY AND ECONOMICS IN THE MICHIGAN AGRICULTURAL COLLEGE.

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#### PREFACE.

The history of railroad taxation in Michigan was prepared by Prof. W. O. Hedrick of the Michigan Agricultural College, upon request of Dr. Henry C. Adams, professor of Political Economy and Finance of the University of Michigan.

The thesis has been printed by the Legislative Reference Department of the Michigan State Library, hoping it may throw light upon existing conditions and perhaps assist in the settlement of questions involved in the taxation of the railroads of Michigan.

MARY C. SPENCER,  
State Librarian.

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## THE HISTORY OF RAILROAD TAXATION IN MICHIGAN.

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### INTRODUCTION.

Almost a half score of years have gone by since the extension in Michigan of the property tax to railroads. This achievement resulted from a controversy—known as the “equal taxation” controversy—concerning the merits of the “property” as compared with the “income” methods of railroad taxation which left little unsaid or undone that would show merit or defectiveness in either of these systems. The people of the state indeed underwent a severe educational discipline in matters pertaining to railroad taxation and the taxing law which was enacted should embody, seemingly, the best current intelligence with regard to this kind of legislation.

It is the purpose of this study to examine the nature and the workings of this tax and also the purely financial aspects of the reform from which the new measure originated. The displaced gross income tax will be discussed, principally because it affords a basis for comparisons, and a still earlier tax—the one on securities—will also be noticed in order to show the beginnings of some administrative methods which have been successively applied to all the taxing systems that have been employed by the state. Finally a critical examination will be made into the peculiar disposition of railroad taxes which has always prevailed in this commonwealth.

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## CHAPTER ONE.

### THE CAPITALIZATION TAX.

#### I. RAILROAD DEVELOPMENT IN MICHIGAN.

The familiar grouping of railroads in Michigan into two classes—one known as the "charter roads," and the other as the "general law roads"—has embarrassed the State with a dual system of railroad taxation from the beginning.

The "charter roads" owe their origin to an early State constitution which forbade incorporation by other than special acts of the legislature. More than forty charters were granted to railroad companies under the provisions of this constitution but of these all save five proved sterile so far as the development of their franchises is concerned. A further distinction of this small group of survivors is that they were the beneficiaries of the internal improvement movement in Michigan—all of them indeed with the exception of one, having been built or promoted by the State.

The history of internal improvements in Michigan has had many narrators and needs but a condensed statement here.<sup>\*1</sup> In brief, an internal improvement commission, appointed in 1837, the first year of statehood,<sup>\*\*</sup> undertook the construction of three railroads across the state—named, in order, the Northern, the Central, and the Southern. Little or no actual accomplishment ensued upon the Northern route, the Central was more than half built, and the Southern more than a third.

This activity of the state was in full harmony with the controlling spirit in neighboring states at this time. It apparently had become settled that improvements of this sort were not to come from the general government and, individual initiative being doubted, state governments everywhere undertook the building of highways, canals and railroads. A further incitement to such enterprise in Michigan arose from the "boom" which the state was undergoing. More land was bought and sold in Michigan in a single year (1836) than during its whole previous history.<sup>\*\*</sup> The number of inhabitants had increased in three years (1834 to 1837) from 87,278 to 174,575.<sup>\*\*4</sup> The share, too, of the Federal surplus distribution due to the State arrived on the very eve of commencing these improvements and helped to stimulate the movement.

But on the other hand the failure of this internal improvement policy was scarcely doubtful from the first. The widespread financial panic of 1837 antedated by only a year the actual beginnings of railroad building

<sup>\*1</sup>See Miss Kelth's "An Historical Sketch of Internal Improvements in Michigan. Mich. Pol. Sci. Pub. Vol. IV.

<sup>\*\*</sup>Mich. Statutes, 1837, p. 198.

<sup>\*\*4</sup>Adams' E., "Agriculture in Mich." Mich. Pol. Sci. Pub. Vol. III.

<sup>\*\*4</sup>Judge Cooley, "History of Michigan," p. 255.