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PROPOSALS FOR RELIEVING FARMERS OF UNDUE TAX BURDENS

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STUDIES have been made in at least a third of the states showing the farm situation with respect to tax payments. They are all alike in the one essential particular—they all show that the farmer, in proportion to his ability to pay, is taxed more heavily than any other important occupational group. Moreover, the burden is getting, or rather has been for nearly a decade, well-nigh unbearable. Farmers have been going bankrupt by the tens of thousands. For some years almost a quarter of all farm sales have been more or less forced transactions. That taxation has been a factor in this unhappy condition is obvious when it is noted in the many studies made, representing every section of the country, that taxes take from 15 to 40 per cent of the net income of the whole class of farmers, averaging not far from 30 per cent. It must be kept in mind that these big percentages indicate a much heavier burden on farmers, with a net income of not far from a thousand dollars a year, than similar percentages on incomes much larger. That high taxes are responsible in no small measure for the unfortunate financial situation of our farmers, is beyond question. At the same time these constitute but one of several major considerations.

The Secretary of Agriculture in his last report estimates the farm tax payment at \$1.42 per \$100 in farm value. This is a distinctly high tax, but the burden is even greater than here appears in view of the fact that quite uniformly farm land value is now overestimated in proportion to its earning power. Were it valued as it should be, the tax payments now made would clearly be much above the \$1.42 estimate—probably \$2.00 per \$100 in value.

Whatever may be the exact, or proper, valuation of farm land, and no matter how dexterously the intangible contributions of the farm to the living of the farm family be handled with a view to making them appear as great as possible, it remains incontrovertible that the taxes are not only heavy beyond ability to bear, but they are also outrageously heavy in comparison with the tax burdens of other classes of people. The cause of the unfair and unbearable inequality is nothing other than the reliance upon the archaic general property tax system. We have outgrown the economic setting

of the early and commendable general property tax, but we are held in the vise-like grip of its political tentacles.

Along with the general property tax inheritance, came an allocation of community responsibility which has been only less persistent than the tax system itself. Each little country community was charged with the responsibility of caring for itself. School houses were two miles apart each way throughout a large part of the Middle West, with almost no regard for the productive possibilities in terms of either crops or children. Roads were built by, and mainly for, each little group, never larger than a township in size. Both roads and schools were local and poor, though in each case some were poorer than others.

The first important effort to get away from mere local responsibility in the matter of schools was to require by state authority that schools be kept running a prescribed minimum number of months, such as six or eight months each year. This resulted in a compulsory increase in the tax levies in many poor districts amounting to five or ten mills on the dollar of assessed property.

The next important exercise of public authority modifying the tax situation pertained to roads. In this case the authority carried with it national, state, and county aid. It would seem that the local district was to escape some of the burden. For the most part this has not come to pass. The demand for better roads has been so general and so intense that relief concerning the thoroughfares has required expense on the byways, and the road taxes of most country districts are higher now than ever before, in fact several times as high as in 1900 or even in 1910. We have automobiles and we must have roads whether or not we have dining room tables or bath-tubs.

All told, the tax burden on the farmer has increased about 160 per cent since before the war, while his income has increased a tenth or an eighth as much.

While the tax burden has been increasing, even to the breaking point, in the country, it has also reached as high a level as is consistent with common sense on tangible property in cities and villages. In other words, we have clung to the general property tax doctrine and practice until we can no longer blink the fact that it is in a state of rigor mortis, or in the language of Jack London, belongs to the unburied dead. During the past half century the business world has undergone profound changes; within that time

wealth and income have concentrated in the cities. Especially has that happened within the past decade. Income is no longer made primarily out of the ownership and use of tangible property. It comes rather out of transactions with a less visible base. Taxing the modern business or professional man by the old method, with any hope of overtaking his ability to pay, is a case of the hare and the tortoise in which the dinner and sound nap are taken with more discretion. Yet some supposed tax experts, at least members of tax commissions, have recently insisted that the general property tax should not be put into the discard until it has been given a real and genuine trial—for example, not until an adequate effort has been made to bring personal property out of its hiding.

While these naïve views are being promulgated for the thousandth time, the farmer with nothing but visible property and most of it real estate, is paying, not according to ability, but at least double that, while a large part of the tax paying ability of other classes is carrying a light load indeed.

PLENTY OF TAX-PAYING ABILITY

We have plenty of tax paying ability. It is abundantly able to take care of all reasonable demands—educational, ethical, physical. Yet we are hungry, surrounded by a plethora of viands.

PROPOSED TAX REMEDIES

1. Minor suggestions. Over and over it is proposed that we revise the system of assessment. Every student of the subject will agree that it should be done. We should eliminate the local town assessor. He is never chosen on the basis of competence, and is seldom kept in office long enough to become acquainted with his duties. He is subject to political influence. Undoubtedly we need county assessors (or assessors for groups of counties), and these should be chosen by boards from a civil service list. Assessment is a technical undertaking and cannot be properly done by the uninformed. Assessors should be supervised by state tax authorities such as tax commissions. But this reform hardly touches the main subject.

We should find all the property contemplated in the acts covering the tax provisions. This applies to any and all systems.

We should insist on economy in the use of taxes. Again, this principle is of general application.

2. Major suggestions. First, we should move as far and as fast as circumstances will permit in the direction of a greater reliance on income taxes. True enough, there are many details to be faced and knotty problems to be solved after the income tax principle is adopted, but no cogent argument has yet been made in favor of the general property tax in comparison with the income tax as the main basis of raising revenues.

A perfect case can be made on paper in favor of taxing farmers, at least in part, as for example to the extent of fifty per cent of the revenues raised in rural districts, on an income basis. This would avail little, applied to the present rural school or road district. Just so, small school and road districts are anachronisms and should be put promptly into the discard, and county and state organizations provided in their stead. But farmers should not pay out of proportion to their ability, and income is the best means of measuring ability.

Practically, there are many objections to a real resort to the income tax. With the states, the trouble is a matter of competition for citizens and business. One must offer as good inducements as others offer. Again, the federal government is collecting an income tax from private citizens. Some ingenious person has proposed that the federal government do as is now being done in connection with the inheritance tax, namely allow a deduction from federal taxes equal to the amounts paid to the states. This would compel the federal government to devise some other means of raising a considerable revenue. It could be done.

A second major consideration, though by no means equal in importance to the income tax in possibility or so unmistakable in desirability, is a tax on a selected, restricted class of sales. While the drawing of the line is not easy, it should in general be drawn between the necessary goods and services and those at least not so essential. A few examples must suffice, although the list can be enlarged greatly.

First, the gasoline tax. This is now universal over the United States, ranging from two to six cents a gallon. Gasoline may be a necessity or a non-essential—there is a disagreement of the juries—but in any case, another canon of taxation is involved. Here we pretty generally agree that ability to pay is subordinate to the benefit doctrine. We cannot sell packages of protection to life and property at the police station, but we can sell the privi-

lege of using the roads, and get back a considerable fraction of the cost by a tax on motor fuel. Just how high this tax should be has not been agreed upon, but there is excellent logic in the contention that it should be as high as possible without breaking down the administration of its provisions. And, moreover, it should be used for roads, distributed over the various districts of the state according to the best information and judgment. Taxes on gasoline, together with motor registration fees, can be used to relieve greatly the tax on farm real estate for road purposes.

Another sales' tax which has met with approval in some of our states and in other countries, is the tax on cigarettes. It is capable of raising millions of dollars per state. It does not conform to ability to pay, at least not unmistakably. Neither does it square with the benefit theory. It is to be justified on the somewhat flimsy basis of a luxury tax. More genuinely it is a means of collecting a few dollars a year from people who have a fair amount of spending money and who, in proportion to numbers, do not pay much in the form of property or income taxes. As a means of reaching the Schwabs, DuPonts, or Morgans it is not to be recommended. In this same category may be mentioned taxes on cosmetics, amusements, radios, and so forth. To all of these there are objections, but the objections are minor in comparison with the present practice of taxing farmers out of house and home. These are makeshift means of raising some millions of dollars per state, and to this same extent lessening the burden on farm property.

Another type of tax, unpopular true enough, but which can be made to yield an appreciable amount of revenue, is a tax on transactions—on notes, deeds, bonds, and the like.

There are possibilities of raising goodly sums of money through a business tax. This is, of course, a crude type of income tax, at least it may be, based on the amount of business done. But, again, remember that this, or at least a wide use of it, is a stop-gap proposal to be operated while we are getting ready for something more worth while.

We need a tariff revision unlike the one just enacted. This was designed as a national pacifier, a new brand of Mrs. Winslow's soothing syrup, or more accurately, changing the figure, a newly polished gold brick with just enough of the precious metal in it so that in the hands of an assayer perfectly acquainted with its contents and arrangement, a good report can be made as to its

analysis, but let no skeptic handle the assayer's boring tool lest the true contents be discovered.

Severance taxes, where applicable, are to be commended and developed.

Should these latter types of taxes prove unpopular enough, the very discontent would compel a study of the situation and create sentiment out of which we might hope for a real tax reform. Nothing short of a radical revision of our taxing system will suffice to bring about justice and wide-spread prosperity.

The above may sound like a big order. However, it may be noted that several states have made at least some progress along the lines suggested. Some fourteen or sixteen states have an income tax. When, and if, they all pass income taxes of the present proportions, the more progressive will again move out in front with a new and higher rate. Several states have cigarette taxes, with no notion of repealing them. All states are raising real sums from gasoline taxes and motor registration fees. Several states have school equalization acts in force and doing good service. The equalization idea is splendid. The method of raising the money for it is not so good. Several states have severance taxes; others have but little in the nature of natural resources to be severed.

It must be admitted that many of the above suggestions under major proposals are not in themselves majors, yet taken as parts of a whole they may belong to a major group as distinguished from a minor group.

Whatever is or is not done to relieve the farmer of undue tax burdens, it must always be kept in mind that the trouble is both chronic and organic. The general property tax is the main difficulty and is past all hope of adaption or reform so far as the main reliance is concerned. It must be reduced to its proper sphere, a sphere vastly below and smaller than the one it now plays with such ill effect.