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Submitted by

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for the Degree of Master of Science

Colorado Agricultural College

Fort Collins, Colorado

May 1, 1927

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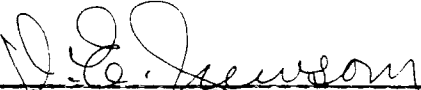
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CONTENTS

I

INTRODUCTION	1
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PART I

TAXATION

II

THE PERSISTENT INTEREST IN TAXATION	6
A Growing Feeling Against Taxation	7
The Present System of Taxation Outgrown	8
The Law of Increasing Taxation	9
The Farmers' Complaints	10
The Economic Status of The Farmer	12

III

WHAT ARE THE FACTS ABOUT TAXES?	13
Statistics of Taxation	14
Significance of The Statistics	18
Causes of The Increase of Taxation	18
Who Is Most Affected By The Increase?	20

IV

THE REMEDIES	
Retrenchment	25
Budgeting	25
The Indiana Plan	27
Eliminate War	30
Readjust The Tax Burden	30
Find New Sources of Revenue	31
Reforms in Assessment Needed	34
Scientific Assessment Will Afford Relief	44
Score Cards for Farms	45
Abolish Tax-Exemption	48
Classify Property	54
Impose and Income Tax	59
Modify The General Property Tax	65
Profit by The Experience of Other Countries	70

V

SUMMARY AND CONCLUSION OF PART I.	77
-----------------------------------	----

PART II

I

FARM RELIEF	79
Business Cycles	79
The Problem of The Surpluses	80
An Export Corporation	82
Illusions Regarding Markets	88
Scope of Marketing	92
Spread of Prices from Producer to Consumer	94
The Farmer's Dollar	97
Agriculture and Unbalanced Industry	99
Proposals for Farm Relief	104
Cooperation	108
Price-Fixing	111
Let Down Immigration Bars?	114
Shall The Tariff be Lowered?	115
Suggestions by The Agricultural Conference	113

II

SUMMARY AND CONCLUSION PART II	120
BIBLIOGRAPHY	129

The taxes are indeed very heavy, and if those levied by the government were the only ones we had to pay, we might more easily discharge them. But we have many others, and much more grievous to some of us. We are taxed twice as much by our pride, three times as much by our idleness, and four times as much by our folly; and from these the commissioners can not deliver us by allowing an abatement.

- Benjamin Franklin

I

INTRODUCTION

A few years ago when the subjects of farm taxes and farm relief began to attract attention, the writer, feeling his ignorance of the fundamental issues in the discussion but appreciating the importance of taxation among the problems of the day, began to read with interest every article in the newspapers and magazines that came to his table. The more he read the more complicated the subject became. He soon reached the conclusion that taxation is the least understood and the most misunderstood among current problems. The writers of many of the articles did not appear to have any comprehensive grasp of the subject of taxation as a whole but manifested an intense, narrow and prejudiced view of certain phases of it. Much of what he read did not throw a great deal of light on the question but it did pique his interest. The growth of his knowledge did not keep pace with his reading. At length it was evident that what he had been reading could be condensed into two statements: one, that the farmer's taxes are too high in proportion to the taxes of other classes, especially when his income is considered, and the other, that his selling prices are too low when compared with the prices of the products of other industries.

These two statements embody the main grievances of the farmer, and it does not require much study to see that the two grievances are really one and that each is a part

of a much larger problem. The taxation of the farmer is a part of the taxation of real estate in general and his grievance can not be permanently remedied apart from the grievances of small land-owners in both country and city. All are victims of inequities and injustices that cry for abatement. The farmer's interest in higher prices for his produce is matched by the consumer's interest in the cost of living. The farmer complains that his income fluctuates from year to year with the bounty or the niggardliness of nature, the influence of the weather, the presence or absence of insect pests and plant and animal diseases. with the prices of his crops, etc., while his taxes are steadily increasing. His standard of living is not as flexible as his income and he resents the economies of the lean years after having tasted the luxuries of the prosperous years. He notices that some classes have steadier incomes than his and that some with much larger incomes than his do not pay taxes at all.

The farmer is not alone, however, in his troubles, for the workingman who is trying to own his own home also finds that his taxes increase faster than his income and this is subject to great fluctuations owing to unsteadiness of employment. His house and lot do not escape the assessor's list any more than does the farm. Both farmer and city home owner are the victims of a method of determining land values based on sales prices and

nothing but a more scientific method of arriving at land values will help either one. Whatever else it may be based on, a scientific method of assessing land values will take note of both the visible and the invisible incomes. The problem of relief from the burden of taxes on the farms is inextricably bound up with the relief of real estate owners in general and neither the farmer nor the real estate owner in the cities and towns will be relieved without some fundamental reforms of the whole scheme of taxation.

When one reaches this conclusion in his study of the subject, and this conclusion is inevitable, he is led to inquire what the facts about the increase in taxation are, whether the phenomenon is general or local, what the remedies are, if there are any, and what are the general principles are upon which sound tax reform must be based, whether patchwork reform will avail any thing, and how the farmer's economic status may be improved, especially in relation to the economic status of other groups. Since these and similar questions arise naturally one is driven to the conclusion that the subject of farm taxation and the improvement of the farmer's economic status together constitute a very complex and difficult problem for the social engineer to solve with the help of trained economists and statesmen. It is certainly no job for the untrained politician.

In trying to find answers to these questions recourse has been had to Government Reports and publications, to the reports of Tax Commissions of nearly every state in the union, to special and joint reports of commissions appointed

by state legislatures. The committees and commissions compiled tables of statistics which were obviously supposed to have some relation to the matter in hand. In too many cases not even a hint is given as to the precise problem the committee or commission was trying to solve; no explanations are made as to what the tables are supposed to show. The general inference is that "that some thing is wrong and something should be done about it". The precise thing that is wrong, and how the compiled statistics show it, is not explained. There is no lack of printed matter dealing with various phases of taxation. The very wealth of matter is bewildering with its vast amount of small details and in its uninterpreted state tends to darken counsel rather than to enlighten it. Taht more helpful legislation has not resulted from all the efforts put forth in so-called investigations is due largely to the fact that the investigations have been made by untrained investigators who did not, or could not, organize the work of the committees or commissions in such ways that they could be used. As matters stand too much of the so-called tax literature and tax-reports is a monument to the industry of the compilers rather than to an intelligent comprehension of what the statistics are gathered for and what they reveal.

This paper makes no claim to being an exhaustive study of any phase of either farm taxation or of farm relief. The Table of Contents indicates its scope. It does not

purport to be a programme for legislative action but is rather a discussion of a programme of thinking an exploration of the field of study in order to determine the more important problems of taxation and relief, to see what they imply, how they are related to other problems, what the difficulties are, and the general principles upon which the solutions are to be worked out. The writer lived upon a farm for more than twenty-five years and so knows by direct contact the farmer's general situation. The questions discussed in this paper are, therefore, not merely academic questions to him. His knowledge of agricultural economics is not derived from books but from the farm itself. He has tried to objectify the farm problems and has tried to preserve the scientific attitude of one searching for the truth rather than the attitude of one who has a thesis to defend and so tries to collect facts to establish his contention.

II

Taxation: Its Persistent Interest

People do not like to pay taxes; they never have and unless human nature changes greatly, they never will. Taxes have always been a bone of contention between tax-payers and tax-levying bodies. The history of England is especially full of the struggles of the English people to keep taxes down. "Lower taxes" has been a popular slogan from the time of Magna Carta to the present. No one knows of a time when tax-payers were satisfied that the taxes were no higher than they should be and that the burden was fairly distributed. In our own country candidates of all parties, state and national, have regularly promised to reduce public expenditures if they were elected, but nevertheless public expenditures have steadily grown. Then, too, there is an odium attached to taxes dating back to ancient times when taxes were extorted from a reluctant people for the pleasures and follies of kings, when taxes were farmed out to the highest bidder and the tax-farmers mercilessly robbed the people for their own selfish ends. This odium has become a part of the folk-lore of the nations. The odium persists even though the tax-payers now delegate the power of levying taxes to their own chosen representatives. The people dislike to pay taxes no matter whether high or low, and no matter who imposes them. This dislike is inherent in human nature and will endure, making the subject of taxation one of perennial interest.

Growing Feeling Against Taxation

When the Great War closed there soon arose a feeling that the heavy burdens of federal taxation growing out of the war should be lessened since there was no manifest disposition to pay off the war-debts as fast and as soon as possible, and there was a manifest disposition on the part of wealth to escape the payment of taxes by investment in tax-exempt securities, thus narrowing the base of taxation, reducing revenues, increasing interest rates, and throwing an increasing burden of taxation upon homes, small industries and farms. It was thought that a reduction of taxation would drive less wealth to investment in tax-exempt securities, promote industrial revivals, and lessen the tendency to class feeling that arises when any class feels that it is bearing more than its fair share of the burden of taxation while some other class is bearing less than it should bear.

Coincident with the agitation for the reduction of federal taxation vigorous protests were made by Farm Bureaus against the high rates of taxation upon farm lands. These protests have been strengthened and justified by studies made by The Bureau of Agricultural Economics of the Department of Agriculture, by reports and studies made by The National Industrial Conference Board, and by The Institute of Research in Land Economics and Public Utilities. The farmers are seeking relief from the burdens of taxation because their taxes have increased while their income has

decreased. In some ways their contentions for relief are selfish and mistaken since they seem to feel that their tax-burdens can be lightened without a reform in the whole scheme of taxation whereby other classes would profit as well as they. But whether selfish and mistaken or not, the farmers' contention is genuine and sincere and must be respected even though it needs to be enlightened.

Present System of Taxation Is Outgrown

There is a growing feeling that relief for the farmer is a part of a much bigger problem than he realizes. The plain fact is that we are laboring under a scheme of taxation that is the outgrowth of conditions that no longer exist. The present scheme is not adapted to the new industrial and economic conditions that have arisen within the last few years. There has never been an attempt made to devise a scientific system of taxation that would accord with the best canons of taxation and be the ripened fruit of sound economic thinking and sagacious fiscal experimentation. Consequently our methods of taxation represent the bungling efforts of politicians and selfish business interests bent upon fostering the interests of the dominant class rather than the work of disinterested economists and statesmen. We are now confronted by the problem of bringing about greater justice in the burdens of taxation - a problem that is difficult of solution and one that will vex our peace and challenge our best efforts for many years to come.

The Law of Increasing Taxation

The great French philosopher, Montesquieu, back in the eighteenth century stated as a general principle that as liberty increases governmental expenses increase. By liberty he meant the democratization and socialization of government. The more control the people have over government the more they insist upon the extension of the functions of government into the fields of social service. The thing we call progress is expensive, and increasingly so. Our standards of living, both public and private, have accustomed us to a scale of expenditure that we find difficult to reduce. As a matter of fact progress means the multiplication of wants and their satisfactions entail increased expenses.

The French Minister of Finance, Villele, in 1828 as he was addressing the French Legislative Assembly regarding the budget, as quoted by H. C. Adams in his Science of Finance, p. 84, said: "Gentlemen, our budget has reached a billion francs. Contemplate these figures. You will never see their like again". While he meant that never again would they be as large, they have never again been as small. This increase in taxation has taken place in all countries where western civilization prevails. So steady has the increase been that it is evident that there is some underlying and even compelling cause that elevates the fact of increasing governmental expenses into the dignity of a law. With this law tax reformers must deal and efforts to secure relief from the burdens of taxation must be in the direction of

the readjustments of the tax burdens rather than in their diminution. New sources of revenue must be found that are now inadequately taxed or not taxed at all. Since the amount of taxation is not likely to be reduced relief must be sought for in a distribution of the burden in the interests of justice, and social well-being.

The Farmers' Complaints

The burdens of taxation do not fall equitably upon all classes nor upon the individuals of the same class. The fairest test of ability to pay taxes is income. The farmers complain that while their taxes are increasing their incomes, owing to a lowered price for their crops, are decreasing not only absolutely as measured in dollars but in purchasing power relatively to the incomes of other industrial classes. For this complaint there is abundant justification. A recent study made by the National Industrial Conference Board as quoted in the Christian Science Monitor for March 8, 1926, indicates that for every dollar received by people in other industries the farmer receives but fifty cents. The economic status of the farmer, according to this study, "has shown a progressively declining tendency since 1900, excepting during the war years, when he had a temporary respite". . . . For every dollar of national income received by persons in other occupations, the farmer received in 1850, 31 cents; in 1860, 38 cents; in 1870, 40 cents; in 1880, 31 cents; in 1890, 36 cents; in 1900, 46 cents; in 1910, 41 cents; in 1920, 39 cents. Indications

are that his share has not increased greatly since".

From the same source we learn that while the farmer's share of the national income has been small the costs of his production have greatly increased so that his expenses have increased faster than his income. His "overhead capital costs including all taxes and interest costs of farming which rose less than 60 per cent from 1880 to 1900, increased 100 per cent from 1900 to 1910, and nearly 600 per cent from 1910 to 1920. Farm labor costs in the twenty years increased 90 per cent. Operating costs per unit of production, covering all materials and products of other industries purchased by the farmer, practically unchanged from 1880 to 1890, rose 116 per cent from 1900 to 1920. Combined costs per unit of product rose over 300 per cent in these twenty years while the wholesale price of farm products increased only 120 per cent.

The actual earnings of the farmer as shown in this study for 1924 are computed at \$730. on the average as against the average earnings of \$1256. per wage earner in manufacturing industries in the same year, average earnings of \$1572. by transportation workers, \$1678. by ministers, \$1295. by teachers, and \$1415. as an average per worker in all groups other than farmers.

The food, fuel and housing supplied by the farm are appraised at about \$630. a year, which leaves the farmer a cash income of about \$100. out of the \$730. earned by his labor in 1924. An average return of about \$400. is

allowed on the capital invested, making a total cash income per farmer of about \$500. a year. Since the food and clothing of the average family during the year is estimated to be about \$475. a year, it is evident that the average farm income is only slightly in excess of that required to obtain the necessities of life.

The Economic Status of The Farmer.

It is evident that if these figures of the National Conference Board are anywhere near reliable, the economic status of the farmer as an earner of income is more serious than his condition in regard to taxes since his taxes by no means equal the difference between his income and the income of the other groups with which it has been compared. The interest of the farmer in taxation, important as it is, is thus seen to be secondary to the larger and inclusive problem of improving his economic status. The wise ordering of the economic interests of society in such ways as to secure for every industry its fair share of the social income and to impose upon each industry its fair share of the common social burden is a task that will require the highest intelligence of trained statesmen for a long period of years. It is well to realize the magnitude and difficulty of the task as well as its essential nature lest we be disposed to intrust the solution to the average state legislature. Inefficiency in legislation is a part of the price we pay for the thing we call liberty.

III

WHAT ARE THE FACTS ABOUT TAXES ?

Before discussing this major interest of the farmer it will be well to study the problem of taxation not only as it affects the farmer but as it affects other classes as well for the farmer is not the only one who suffers from the evils incident to taxation and so is not the only one who is interested in the subject. In fact, the problem of the farmer's taxes is a part of a larger problem and can not be solved independently of the larger problem of which it is a part. The sooner and the more completely that this is realized the better it will be for all concerned and the more likely we shall be to find a satisfactory solution.

Taxes have been growing heavier for a number of years and there is no prospect of relief for a long time to come. If we could see lighter taxation ahead, we might bear the present burdens more cheerfully than we do. If the burdens of taxation bore equitably upon all classes, we might bear them more patiently than we do. But heavy as taxes are, we are spending money faster than we are raising it by taxes. We are piling up great public debts which will have to be paid some day, both principal and interest, in addition to heavy taxes for current expenses of government. The current expenses of the present, even without the inevitable increase, would be a heavy burden without the added burden of paying off the principal of the debts with the annual

installments of interest. In the presence of agitation for relief stands the disquieting fact that heavy taxation is certain to be our lot for many years to come.

The increase of taxes and public indebtedness is a wide-spread phenomenon and is not confined to any particular section of country. The following statistics have been compiled from Press Releases of the Department of Agriculture made since July, 1925, and from Public Debts issued by the Department of Commerce in 1924. In a few instances when the figures for a given year were not available the figures for the preceding year were used but this substitution in no way invalidates the significance of the statistics. They show the increase in taxes and public debts both in dollars and in per cents. They are so plain that he who runs may read, and he who reads should ponder over what they reveal.

City	Per capita tax		Per capita debts	
	1924	1917	1924	1917
Berkeley	\$28.69	\$16.73	\$52.29	\$30.36
Superior, Wis.	32.18	18.49	55.43	27.09
Gary, Ind.	48.28	38.45	29.23	15.38
Fort Wayne	28.49	10.56	84.55	15.05
Wichita, Kan.	31.79	14.81	57.48	26.07
Grand Rapids	34.64	16.05	53.28	31.23
Fort Worth	21.27	12.40	84.55	58.94
Pueblo	24.55	10.93	73.82	54.73

City	Per capita tax		Per capita debt	
	1924	1917	1924	1917
Denver	\$32.98	\$18.82	\$69.42	\$ 1.66
Colorado Springs	40.64	15.39	109.09	67.10
Kalamazoo	31.25	14.43	45.24	22.27
Indianapolis	37.90	15.50	77.70	23.42
Lima, Ohio	20.84	8.86	120.67	52.99
Des Moines	39.71	19.93	101.76	45.99
Danville, Ills.	19.68	14.23	34.28	11.08
Springfield, Mo.	28.24	15.55	16.52	4.43
Syracuse	34.33	19.47	80.97	63.62
Lincoln	31.25	17.55	42.70	25.18
Portland, Me.	37.78	18.53	114.10	113.61

State	Per capita tax		Per capita debt	
	1924	1918	1924	1918
Colorado	\$ 9.89	\$ 5.33	\$11.30	\$ 5.02
Utah	12.68	5.76	16.73	6.32
Wyoming	8.38	5.51	15.98	0.56
North Dakota	6.85	2.54	12.51	0.69
Missouri	3.16	1.40	12.51	2.01
South Dakota	5.76	3.06	22.25	0.00
Oregon	9.33	3.79	49.94	0.66

These statistics are fair samples of their class and could be extended indefinitely if more statistics were thought to be necessary to establish the fact that increase in taxation and public debts is not a local phenomenon.

State	Debts Per cent Increase	Debts Per cent Increase
	1912 - 1922	1902 - 1912
Colorado	150.4	79.7
State	278.7	-16.4
County	39.4	-4.9
Incorporated places	65.6	143.7
Other civil divisions	849.6	199.9
Wyoming	342.3	68.5
State	3177.3	-59.3
County	151.2	-20.9
Incorporated places	191.7	256.4
Other civil divisions	1459.4	27.5
Utah	227.3	131.2
State	586.7	46.7
County	586.1	11.7
Incorporated places	59.2	142.9
Other civil divisions	709.4	543.0
California	254.5	719.9
State	734.1	245.9
County	331.8	347.5
Incorporated places	68.0	986.1
Other civil divisions	1775.8	506.3
Illinois	161.0	72.8
State	510.7	5.5
County	147.8	55.9
Incorporated places	49.7	77.8
Other civil divisions	1241.5	65.0
Oregon	215.1	287.8
State	129,495.8	-86.9
County	647.0	9.2
Incorporated places	36.7	360.1
Other civil divisions	966.7	887.6
North Carolina	432.0	123.8
State	330.8	19.3
County	850.6	194.0
Incorporated places	269.9	208.8
Other civil divisions	1,215.8	244.0
Iowa	328.0	103.1
State	308.5	619.3
County	351.2	123.7
Incorporated places	105.4	81.7
Other civil divisions	1667.2	249.3

State	Total debt, 000 omitted		Per capita Debt	
	1922	1912	1922	1912
Montana	7,579	1,513	12.80	3.73
Idaho	7,763	2,143	16.81	5.92
Colorado	12,019	3,174	12.33	3.70
Utah	9,819	1,430	20.97	3.62
Arizona	2,740	3,065	7.59	13.28
New Mexico	4,954	1,218	13.44	3.41
Iowa	151,614	35,426	62.23	15.94
Oklahoma	129,977	60,721	61.75	31.32
Oregon	138,094	43,828	170.69	57.90
Illinois	364,019	139,481	54.56	23.62
California	520,254	146,752	148.81	55.01
Texas	356,342	87,894	73.71	21.07
Ohio	669,443	239,667	112.25	48.27
Michigan	361,778	59,997	94.09	20.43
Minnesota	269,608	70,363	109.99	32.26
Mississippi	111,499	28,629	62.27	15.25
Louisiana	126,946	75,007	69.18	42.97
Pennsylvania	550,439	245,979	61.28	30.34
Tennessee	133,337	59,099	56.27	26.41
Maine	42,457	22,798	54.90	30.08
Connecticut	100,954	52,036	70.33	44.03
New Jersey	382,172	170,169	116.40	61.89
Florida	98,269	18,424	95.96	22.72
Nevada	98,269	18,424	95.96	22.72

Significance of the Foregoing Tables

The foregoing statistics constitute an imposing array of facts that show beyond question the seriousness of the tax and debt situation of the country. They cover territory from the Atlantic to the Pacific and from the Lakes to the Gulf. Statistics showing similar conditions can be compiled for practically every state in the union. The statistics show that taxes are heavy everywhere in the nation and, heavy as taxes are, public debts are increasing rapidly. Some of the tables show the rate of increase of taxes and debts in per cents, some show the per capita increase, and some the amount of increase. They certainly provide food for serious thought. With debts piling up as the tables show we can not escape the conclusion that till these debts are paid we must continue to pay heavy taxes or find some way to lighten the burden by a fairer distribution of taxes than now prevails.

Causes of The Increase

Private families find that they can not provide food, clothing and shelter for the same amount of money that they did ten or fifteen years ago. A growing and progressive state is like a growing family and expenses naturally and inevitably increase even for the same amount and class of service. But the character and amount of public service has materially changed in recent years. Now a public service is considered a necessity which a few years ago would have been considered an extravagance. People are no

longer contented in either private or public life with the facilities and standards of living that satisfied them till recently. They now demand elegance as well as convenience in their public buildings. They insist upon better roads, streets, sidewalks, parks, schools, and better protection from fire and disease. These things can not be had without money and taxes higher than ever before are the inevitable result. Every improvement and every extension of governmental service necessitates additional administrative machinery, some new Board, some new Commission, and added names to the pay-roll.

No one wants higher taxes yet all want the things that make taxes higher. Now that the burden of taxes has become noticeable with excellent prospects of becoming heavier before it becomes lighter the tax-payers are complaining. There is a growing feeling that the wealthy classes are not bearing their full and fair share of the burden but are escaping the burden by shifting it to other shoulders through investments in tax-exempt securities. There is also a feeling that the wealthy classes are not assessed as large a per cent of the true value of that part of their property that does get assessed as are the poorer classes. Too much wealth escapes taxation by concealment, undervaluation or by legal exemption. This results in a higher tax-rate upon the property that is assessed and the small land-owners in both city and country have to bear their own proper burdens and in addition a part of the

burden that should be borne by the wealthier classes.

Another cause of high taxes is the diminished purchasing power of the dollar. Even without any extension of government service beyond those that have prevailed for some time, even with some curtailing and rigid economies, the sheer inability of the dollar to buy as much as it did a few years ago would necessitate an increase in taxes. Important as this factor is as a cause of increase in taxes, it is not the most potent one in causing the increase for taxes and debts have increased faster than the dollar has lost its power to buy.

Who Is Hit Hardest By The Increase?

If the burden of taxation had been equitably adjusted before the increase began, and if the increase touched all classes in the same ratio, the problem of taxation now would be one of retrenchment; but the burdens were not equitably laid and the increase in taxation has not been a mere increase of a fairly distributed burden. The inequalities and inequities of taxation were bad enough before the increase began and the increase has served to make the inequalities and injustices greater. It is now a matter of considerable importance to know what class of people and what classes of property are bearing the most of the increased burden.

According to Report Number 64 of the National Industrial Conference Board, p. 33, the farmers in 1913 paid out

10.6 per cent of their income in taxes as against the rest of the country's 4.1 per cent; in 1919 the farmers paid 8.3 per cent as against 13.2 per cent; in 1921 the farmer paid 17.2 per cent as against 15.7 per cent; in 1922 the farmer paid 16.6 per cent as against 11.9 per cent. Since 1922 the farmer has been in an unfavorable situation because his taxes require more dollars and owing to the decline in the prices of his crops he gets fewer of them with which to pay taxes.

A similar study was made in Wisconsin in 1923 by The Institute for Research in Land Economics and Public Utilities which also shows that the farmer in Wisconsin as representative of a class that pays taxes on the capital value of property pays a larger part of his income in taxes than any other class. The following table is taken from an address by R. T. Ely on The Taxation of Farm Lands p. 17, and shows that while the farmer pays out the largest proportion of his income in taxes of any of the groups with which he is compared, several of these groups are bearing a heavy burden also.

Percentage of Net Incomes Absorbed by State and
Local Taxes in Wisconsin

Municipally owned utilities - - - - -	6.03
Unincorporated Businesses - - - - -	7.1
State Banks and Trust Companies - - - - -	12.5
Electric Railways - - - - -	16.9
Manufacturing Corporations - - - - -	15.7
Average of All Business Corporations - - - - -	17.2
Public Utilities Locally Assessed - - - - -	14.6

Public Utilities Assessed by State Tax Com'n -	-19.5
Average of All Public Utilities - - - - -	18.5
Telephone Companies - - - - -	23.3
Steam Railways - - - - -	29.2
Farms - - - - -	30.6

It must be frankly admitted that the difficulties in farm accounting are great and that the accuracy of these figures can not be vouched for, yet they are probably sufficiently accurate to show that the farmer is carrying a heavy tax burden at a time of agricultural depression. But even if the substantial accuracy of these figures be questioned, they are corroborated in a startling way by studies carried on by the Bureau of Agricultural Economics based largely upon the Statistics of Revenue, Bureau of the Census, 1922. These studies may be found in a Press release of the Department of Agriculture, January 30, 1925. They show that the income reports to the Bureau of Internal Revenue by 9,092 corporations engaged in agricultural or kindred industries indicate that 86 per cent of the profits of these agricultural corporations was paid out in local, state and federal taxes. These taxes were higher than the taxes of other industries when measured in terms of income. The local and state taxes took 65 per cent of the profits of the agricultural corporations and these taxes were greater than the total taxes on the profits of the other corporations. Mining and quarrying came next with a tax of 62 per cent; professional corporations, hotels and theaters paid out 40 per cent; Transportation and Public Utilities paid out 37 per cent; construction

companies paid out 35 per cent; banks and insurance companies paid out 32 per cent; wholesalers, retailers and jobbers paid out 28 per cent; manufacturers paid out 25 per cent; and of the 9,092 corporations studied, 7,747 were agricultural corporations, and of these over 50 per cent reported a deficit for the year. General property taxes are considered by the Bureau to be responsible for these deficits since they were imposed in a time of economic readjustment and were based on the capital value of land at a time when the income from the land was seriously diminished. The failure of the states to widen the base of taxation when there was a need for increased revenue compelled the holders of real estate to pay out an increased part of their income in taxes.

When an attempt is made to investigate the incomes of individual farmers the absence of any worth-while system of farm accounting makes it almost impossible to secure reliable data upon which to base comparisons. The owners of rented farms are about the only farmers that can tell, even approximately, the income from their farms. Since the taxes on these farms must be paid out of their income, it is evident that the per cent of these incomes consumed by taxes is high when compared with the rates upon regular income taxes.

In a Preliminary Report on Taxation of Farm Real Estate in Indiana, issued by the Bureau of Agricultural Economics in March, 1925, we find on p. 4, that in one county

in Indiana in 1922 the taxes consumed 39 per cent of the net rent, in another county 43 per cent, in another 60 per cent. In a Preliminary Report on Rented Farms, 1919, released in March, 1925, p. 4, we also find that in a Michigan county in 1919 the taxes consumed 38 per cent of the net rent before deducting taxes. In a county in Pennsylvania the taxes consumed 67 per cent of the net rent before deducting taxes. On p. 9 of the Preliminary Report on The Taxation of Farm Real Estate in Indiana, mentioned above, a similar study of a number of farms in Ohio from 1913 to 1922 shows that the per cent of net rent before deducting taxes that was paid out in taxes rose from 24 per cent in 1913 to 41 per cent in 1922.

If the farmer as a class is not hit the hardest by the general increase in taxation, he is hit sufficiently hard to make his plight worthy of serious thought, and the data given seems to justify his contention that as a class he is paying taxes out of proportion to his tax-paying ability. In a subsequent place two causes will be pointed out that explain his plight and will be discussed at some length. Suffice it to say in passing that the farmer's ability to pay taxes is lessened by the lowered prices of his crops, which reduces his income, and his taxes are made too high by the inflated values of his land which are reflected in his assessed valuations for taxation. If the values of his lands could be reduced to normal proportions, his income would not be diminished but his taxes might be reduced.

IV

WHAT ARE THE REMEDIES, IF ANY ?

Retrenchment

Concerning the causes of increased taxation and mounting public debts there is little divergence of opinion; but, when the practical man asks for remedies he is confronted with a great variety of suggestions. In the midst of this variety of possible solutions one fact stands out with startling clearness - the fact that there is no one way of obtaining relief from the staggering burdens of debt and taxation except the one way that people are apparently unwilling to try, that of retrenchment in expenses and a programme of economy till the vast debts now piled up are paid off and the burden of interest is eliminated. The Tax Commissioner of Texas in his report for 1923 - 1924, p. 22, remarks that "Our tax problem will be half solved if, with greater prudence, we confine our public expenditures to actual public needs". But people are not willing to confine public expenditures to actual public needs especially if the payment can be postponed a few years by means of a bond issue. So, if people will not retrench, we might try

Budgeting.

If any relief from the present and prospective burdens of taxation is to be experienced, the most likely source after retrenchment is the establishment of a sound budgeting system by every tax-levying body from the National Congress down to School Boards. Accurate statistics

and a business system of accounting would go far to form a basis for such a budgeting system. Nowhere is such a system needed than by the smaller governing bodies. The Tax Commissioner of Texas in his Report for the years 1923-1924, p. 15, 16, advocates such a system for Texas. The Tax Commissioner of North Dakota in his Report for 1923-1924, p. 28, that the legislature of 1923 enacted a "law providing for a county budget, and it is worthy of note that since its enactment counties have shown a better record of tax reduction than have any other class of taxing districts although a limitation was placed upon the general fund levies by all other classes of taxing districts". The Joint Legislative Committee on Taxation in Iowa in 1923 devotes p. 33-37 of its Report to a statement of the advantages of a budgeting system as a means of economy in taxation. It calls attention, however, to the fact that to be really helpful it is necessary that a budgeting system be some thing more than a mere name. While several of the states have some form of state or local budgets of various degrees of efficiency, the trouble is that they are administered half-heartedly by budget boards too small and too short-lived to accomplish much. It may develop some time that the people will realize that the surest economy in public expenditures lies in knowing where their money is going before it goes rather than in knowing where it went after it has gone. A sound budget system would stand impartially between those who would spend public revenue and those who must pay it.

The Indiana Plan

Under the laws of Indiana the proper officials of a municipal corporation are required to publish a budget on forms approved by the State Board of Accounts, showing the amount of money they propose to spend during the ensuing year, the valuation of the property in the district under their jurisdiction, and the rate of taxation they propose to establish. A public hearing is then held on the proposed budget and interested taxpayers have a right to be heard. The budget as finally adopted, if not satisfactory to the taxpayers, may, upon the petition of ten taxpayers be forwarded to the State Board of Tax Commissioners for review. The State Board then arranges for a hearing in the county within which the municipal corporation is located, and after such hearing the State Board has a right to affirm or to decrease the total levy or any item of it as it thinks best after the evidence and information are obtained.

The results of this law are worthy of note. It has saved thousands of dollars to the municipal corporations of the state, not by denying entirely the corporations the needed improvements but by holding up the levies till more advantageous contracts could be made. Thousands of dollars were saved on single buildings by refusing to ratify the budgets till a contract could be procured for the erection of the buildings at a price that the State Board considered to be reasonable.

The taxpayers of Indiana have taken advantage of this law more freely on questions of issuing bonds than on the tax levies. The Annual Report of The Board of Tax Commissioners of Indiana for the fiscal year ending September 30, 1925, p. 4, says that from March 1921 to October 10, 1925, the State Board approved the issue of \$26,754,743. in bonds by various tax-levying units and disapproved of the issue of \$18,251,461. by the same units. It seems evident, therefore, that here is a device that actually secures retrenchment and could be adopted elsewhere to excellent advantage.

Indiana Plan Approved

The Board of State Tax Commissioners of Michigan in its report for 1921-1922, p. 33, says, is speaking of the Indiana plan, that an impartial Board of Review under such a plan "having in mind the needs of the community and the interests of the taxpayers could accomplish wonderful results. We believe this system offers the greatest possibilities for actual benefit to the taxpayers of the state!"

Governor George S. Silzer of New Jersey in his message to his State Legislature, January 13, 1925, strongly endorsed the Indiana plan and commended it to the favorable consideration of the New Jersey Legislature. He said:

"With the increasing tax rate and the constant inflation of municipal budgets and the issuing of large amounts of bonds, it is our clear duty to provide a method to check extravagance and to relieve the taxpayer. I can not impress upon you too strongly this fact. If the Legislature in its wisdom can find anything more efficacious than the Indiana

plan, I would be glad to have them do so, but experience has shown us that nothing has been as practical in its effect as that plan. Its operation in Indiana has demonstrated its usefulness and efficiency. First enacted into a law, it was then repealed at the instance of those doing the spending, then re-enacted because of a great demand from the taxpayers and since that time in active operation. I urge strongly upon you the enactment of a law similar to the Indiana plan in the interest of the reduction of taxes".

The smaller governing bodies are greatly in need of a system akin to the Indiana plan. Local governments are notoriously incompetent, inefficient, and, while usually honest and well-meaning, are wasteful and extravagant. The fiscal estimates of all such bodies should be subject to review by a superior board of assessments and should be scrutinized by such boards with due regard to revenue needs and existing debt-levels. The right of appeal to such boards should be regarded as one of the safeguards of democracy. A system of careful budgeting would undoubtedly help materially in preventing extravagance and waste by the mere fact that budgets would be subject to review by a superior Assessing Board with the possibility of reduction. The plan is akin to that of requiring a bill to pass two houses of the legislature, whether national or state, before becoming a law. Hasty and poorly considered action by one body may be checked by the other. Our system of governmental checks and balances needs to be applied with intelligent resolution in the field of taxation.

We Might Eliminate War

Since more than eighty per cent of the huge sums raised by Federal taxation are used to pay for past wars and in preparation for future wars, the elimination of war would free the Federal Government from the necessity of levy such heavy taxes and many sources of Federal revenue could be thereby left to the states to tax for their needs thus lightening the tax burdens of the people as a whole and yielding greatly increased revenues for the arts of peace. This is a consummation devoutly to be wished, but it probably lies, and will for a long time to come, lie in the realm of "irridescent dreams".

If Not Retrenchment, Then Readjustment

The burdens of taxation are very heavy, but heavy as they are, the American people are capable of carrying, and do carry, still heavier burdens without breaking under the strain. Loud as are the complaints about the high taxes, the complaints about the inequalities and inequities of taxation as between man and man, class and class, city and country, industry and industry, are more serious. As long as the American people carry the direct and indirect burdens of their automobile taxes, their huge liquor and tobacco bills, and can spend such vast sums of money on luxuries and amusements, pay their church, club and lodge dues, make contributions to all manner of charitable enterprises, they are not a poverty stricken people.

Retrenchment is highly desirable, but if the burdens of taxation were distributed with justice, the problem of retrenchment would not be so serious. Too many people are now pay heavier than their fair share of taxes while others are either paying less than their fair share or none at all. Desirable as retrenchment is, a readjustment of the burden in the interest of justice is more desirable still. If every citizen paid his fair share of the fiscal burdens, revenues would be greatly increased and the burden upon the present taxpayers would be lessened. Relief from the burdens of taxation is to be sought through readjustments of the burdens as well as through economy and retrenchment.

New Sources of Revenue

In suggestion new sources of revenue as a means of relief from the burdens of taxation it is to be distinctly understood that the object is not to secure more money to be expended but the readjustment of the burden now borne almost exclusively by real estate and tangible property. If contributions can be secured from sources not now contributing, then a smaller amount will be required ^{from} those sources now paying more than their fair share of taxes. The more shoulders the burden rests upon the smaller the burden will be that rests upon the individual shoulder. The owners of real estate have much to gain and little to risk by any reforms that will widen the base of taxation. Real estate is now largely over-taxed while a large body of wealth and income escapes taxation altogether. Some

states have more than others of such possible sources of revenue depending upon the degree of their industrialization. In some states several of such sources might be tapped for the first time; in other states where such sources are being used to some extent, they might be extended if the yield of revenue from them has not reached the highest point consistent with the economic and industrial development of the state. Such possible sources of revenue for many states are an income tax, an inheritance tax, consumption or sales tax, tobacco and cigarette tax, luxury and amusement taxes, soft drink tax, severance taxes, poll taxes, gasoline, motor and truck taxes, business, license and franchise taxes, etc. Which of these possible sources of revenue may be utilized in any particular state will depend upon the conditions prevailing in that state. In some states several of these sources may be used for the first time while in others where they are already employed they may be extended. But to whatever extent they are used they will afford relief to real estate. Of course some of such diversified taxation might be shifted so that it would rest eventually upon real estate, nevertheless the proportion of such taxes that would fall upon the farmer, small land holder, or other holder of real estate, is certain to be less under such a diversified form of taxation than it now is when so large a part of taxes is derived from real estate from which it is difficult to shift it.

We have come to the time when in the interests of justice to the small holders of real estate, the wage-earning and salaried classes, direct taxes must be supplemented by indirect taxes. It is certainly not an impossible to devise a system of taxation in which direct and indirect taxes find their proper places and in which the service side of government may find ample fiscal support in well-nigh universal contributions from the people among whom the benefits of this service are diffused. It is certain that at present the diffusions of services and benefits is not accompanied by an equitable diffusion of the burdens that make such services and benefits possible. In the interest of social justice as well as of social stability it is time to recognize that our entire fiscal system is out of gear with the times.

The plain fact is that very few people really understand the subject of taxation. The industrial and economic organization of the time is so complex, so baffling to any adequate comprehension of it, the effects of taxation so uncertain, the magnitude of the task of overhauling and reconstructing our schemes of taxation so appalling, that we hesitate about setting ourselves to the task. Yet we can not continue indefinitely to avoid serious and intelligent efforts at tax reform simply because they are difficult. The demands of justice are insistent that an effort be made. Retrenchment is not sufficient, necessary as it is. Justice demands some thing more.

Reforms in Assessments

After a careful determination of the amount of taxes to be raised and the purposes to which they are to be devoted, the next step is to determine each taxpayer's fair share of the burden. This calls for a painstaking estimate of the value of each taxpayer's property and his tax-paying ability. Unless this can be done we shall never arrive at essential justice between man and man, class and class. At best our democratic administration of public affairs is inefficient, but in fiscal matters it is well-nigh tragic. The assessment of property is inherently a difficult matter and as society becomes more and more complex and we have need of finer and more accurate instruments for such work, we find that we must continue to use an instrument long since outgrown and not adapted to the complex industrial life of the times. The poorer the instrument, the greater the need of an expert workman to use it, We have not yet reconciled efficiency and democracy, and perhaps we never shall. We call upon men to act in the capacity of assessors when about the only qualification they have for the job is the ambition to try it. While assessors should be men of affairs, well acquainted with property values and building costs, conversant with the practices of business men and good accountants, they seldom are. It is evident therefore that here is a vital spot in all efforts at tax reform.

Until we improve the quality of our assessors we can

not hope for much improvement in assessing property for taxation. But we must have more yet. We sadly need a scientific process of assessment that is based upon generally recognized principles that are a part of a system of taxation that has been constructed in the light of present day conditions. Even with better assessors, without better methods of assessing to administer we shall still fail to do what should be done.

If we are to profit by the experiences of other countries in their efforts at tax reforms, we can not with reasonable hope of success in our own efforts avoid making changes in our methods of administration. Advances in tax reforms must be sought in such changes as well as in the recognition of certain fundamental canons of taxation upon which all just taxation must rest. We have confined our taxes too largely to property taxes and have tried to tax all property alike regardless of its nature or income-earning power. We have depended too much upon sales prices in assessing real estate, and this practice for reasons that will be discussed later bears heavily upon the farmer.

Property taxes, like all other taxes, must be paid out of income, and so taxes are either heavy or light depending upon whether the taxes consume much or little of the income. The speculator in purchasing a farm of course considers its possible sales value, but the business man in purchasing a farm as an investment is chiefly concerned with its earning capacity. It is also the practice of the

business world to capitalize the income from a piece of property in determining its value whether for sale or investment. Consideration of the income-earning capacity of property has been widely urged in recent years in determining the value of property for taxation. A Special Tax Commission in Iowa and a Committee on Tax Investigation in Oregon in 1923 recommended it. The Indiana Legislature in 1921 gave assessors discretionary powers to use income-earning power of property in determining its true value. Income is used in determining corporation taxes and the same principle if applied to farm valuations for taxation would help the farmer materially as will be subsequently shown.

However, such a course would not, without the help of further reforms in other directions, guarantee material reductions in farm taxes. The main effect might merely shift taxation to other forms of property. In sections where there is little property of any other sort, the lower valuation of farm property might be balanced by an increase in tax rates and the farmer would continue to pay the major part of taxes as at present. The farmer would then have no more relief than could be obtained by equalization of taxes locally unless some state wide interests such as highways and education could be financed by state wide taxes.

Advantages of A Tax on Capital Values

The taxation of the capital value of real estate as distinguished from net product or rental value has been

the practice for so long and is so firmly entrenched in tradition that it is tacitly assumed to be the most satisfactory method of taxing real estate. While this assumption may be questioned we must recognize that it does have some advantages.

In the first place the frequent transfers of real estate make it comparatively easy to place a value upon it. That is, easy by the rough and ready methods commonly used. The determination of the value of a piece of property by some scientific method would be far more difficult, especially by the average assessor. In the second place, if we attempt to tax all property alike - and this is the fundamental principle of the general property tax - it is easier to employ the capital value of real estate as well as of other forms of property as a basis of equalization. In fact, this is about the only method that assessors and boards of equalization can use. In the third place, the method has an advantage over the net product or net rental value because it applies to unimproved land and prevents that form of property from escaping taxation while a tax on net product would NOT apply to idle land. In both Germany and England where rental value was long employed as the main basis of taxation it was found necessary to devise special methods of taxing unemployed property which escaped taxation under the existing system of taxation on rental values. A fourth advantage of the capital value method of taxation is its certainty and regularity as a

basis of revenue. This certainty and regularity, however, while a decided advantage from the point of view of the local taxing jurisdiction is one of the principal disadvantages from the farmer's point of view simply because the tax does not vary with the fluctuations of farm incomes. This is a particularly serious disadvantage because the net product of farms varies with the price of farm produce, weather conditions, and the presence or absence of insect pests, animal and plant diseases, while the capital value of his farm as fixed by the assessors does not change for a term of years.

Data on the net returns from farms show great variations in the per cent of returns on investment not only between individual farmers but with the same individual in different years. Since taxes are consuming a large part of the income of real estate in general and of farm lands in particular, the inelasticity of the tax in conjunction with the variations in net income is a serious handicap to the farming industry. Only the strongest advocates of such a tax will claim that it is fair and equitable except as there is a direct relation between such a tax and the net income from the property taxed. Evidence will soon be presented to show that this is not always the case and very frequently is far from the truth.

Capital Values Inflated

One strong objection to basing real estate values

upon capital values is that capital values are often anticipatory and speculative and that such taxation is taxation not only upon what the owner has but on what he expects to have. The mathematician would say that the capital value of land is the sum of the present worths of an indefinite number of future incomes. Present worth is supposed to be calculated by employing a rate of discount that closely approximates the return on other investments of similar security and desirability. In practice this would not be feasible since no one can foresee the future net returns upon any particular piece of property.

The average buyer judges the future by the present and the immediate past. If the income from farm land is increasing and has been increasing for some time, the value of the land will be rated higher than it would be if it were assumed that the income would continue unchanged. For several years prior to 1920 the returns from lands and land values had been increasing and the value of real estate, especially farms, was much higher than the average income at the time justified if capitalized at the average mortgage interest rate. Land values were the sum of two addends, one due to the capitalization of the average interest rate, and the other the anticipated increase in value. If the owners of land were professional speculators in real estate, there might be some justification for so speculative a value in the valuation of real estate for taxation purposes. But since more than sixty per cent of the farmers

of the country own their farms or an equity in them, the practice of using a speculative value as a part of the value of the land for taxation is decidedly uneconomic and adds materially to the tax burdens of the farmers.

In recent tax literature we find frequent references to the fact that in Chester County in Pennsylvania, the taxes consume 66 per cent of the net cash rent of rented farms. From some data published in the National Real Estate Journal for June 30, 1924, the writer computes the average value of these rented farms at \$115.71 an acre and the average cash rent from them at \$1.83 an acre. This rent capitalized at eight per cent makes the the value of an acre of this land to be \$22.88 an acre. The \$115.71, which is its valuation minus the \$22.88 is \$92.84 which is the speculative element in the value of this land. That is, the speculative value is 88 per cent of the total valuation. The taxes are paid, not on the \$22.88 which is the income earning value of this land, but on some larger part of the \$11.71. If one of these farms consisted of one hundred acres, its value at \$115.71 an acre would be \$11,571. This sum at eight per cent would earn an income of \$925.68 instead of \$183. which is the average rental for such a farm in this county. As a plain business proposition such a farm is worth \$2288. instead of \$11571. If the taxes were laid upon the same per cent of the \$2288. that they are of the \$11,571., the taxes would not consume 66 per cent of the net rent.

Dane County, Wisconsin, is also cited as a county where taxes consume 29.6 per cent of the net cash rent. From the same source we find the average value of the rented farms to be \$154.95 an acre, and the average cash rent to be \$3.98 an acre. Capitalizing this rent at eight per cent the income-earning value of these farms is \$49.75 an acre. The \$154.98 minus the \$49.75 is \$105.20 which represents the speculative element in an acre of this land, and this speculative element is 70 per cent of the total valuation. The farmers are paying taxes on this speculative element as well as on the income-earning value of it. If the land were valued at its income-earning power and taxed accordingly, the income would not be changed but the taxes would be reduced unless the county consists wholly of farms and the tax rate had to be stepped up to compensate for the lowered valuation. In the same way it can be shown that the speculative element in the farm values in regions where the Bureau of Agricultural Economics has made studies is marked. The speculative element in the valuation of rented farms in Tipton County, Indiana is fifty per cent; in Story County, Iowa, it is sixty-nine per cent; in Franklin County, Ohio, it is sixty per cent; in Macoupin County, Illinois, it is sixty-four per cent; in Moody County, South Dakota, it is seventy-one per cent; in Merced County, California, it is fifty-five per cent; in Washington County, Oregon, it is sixty per cent.

Two Functions of Farms

The fact that farm prices are so much higher than those justified by their productivity leads to the inquiry why this is so. Farms serve two purposes entirely distinct from each other - one as a production plant and one as a home. As a production plant the farm is valuable like a business investment for the income produced by it. Mathematically the value of a farm is a function of its income. The amount of net income any given farm will produce is very difficult to determine since the income is a function of the management of the farm, the character of the farming, and other variable factors. But it is conceivable that a system of farm accounting can be devised that is practicable by which some normal and reliable amount of annual net income may be computed and capitalized for taxation and other purposes. The determination of the net income of any farm is difficult at best, but difficult as it is, it is still easier than to determine the psychic income from the farm as a home for many elements enter into the home value of farm that do not lend themselves to any system of accounting yet devised.

Some of these elements are the scenery, pleasant neighbors, a ^a helthful neighborhood, good schools, churches, good roads, good water, nearness to markets, attractive homes of good architecture and well kept grounds, and such other inducements that add to the pleasure of living. These have an intangible value and command a price.

A part of this home value may be due to the fact that the farmer is his own boss. There are periods when work is slack and the farmer has considerable leisure. The cost of living in rural communities is comparatively low and the presence of telephones, rural free delivery of mail, the time and distance destroying power of the automobile, with other conveniences once to be had only in towns, all combine to give country life an attractiveness it once did not possess. But be the causes of this home value of farms what they may, the fact remains that it adds to the appraised value of the farms upon which their owners have to pay taxes.

Aside from the home value of the farm and its value as a production plant there is frequently an anticipatory unearned increment of value upon which some day the owners expect to realize. Many farmers retire from the active management of their farms or sell out and spend their remaining days living upon the principal of their investment and its unearned increment. The same principle is involved in holding vacant city lots for a rise in price. Since few of these vacant lots bring their owners any income there is no net income to capitalize to determine their value. Their owners expect that some day the lots will sell for enough more than they cost to pay for the interest on the investment and on the taxes paid, and for enough more to make a profit on the whole transaction. Those interested in a further discussion of this topic will find material

in the United States Department of Agriculture Department Bulletin, Number 1224, p. 37,ff, in Bulletin Number 874 of the same source, and in the Kentucky Agricultural Experiment Station Bulletin Number 240.

Scientific Scheme of Assessment Needed

A scientific scheme of assessment means that the valuations of property of any and all sorts shall be based on certain fundamental principles applicable to all property of the same class so that comparative values may be determined with a fair degree of accuracy. In some of the larger cities where a careful study of assessments has been made score-cards for the assessor's use have been made. These score-cards include such items as age and probable life of the building, materials of its construction, the site value of the lot, the number and size of rooms, the floor space, the conveniences embodied, the basement, the lay of the land, neighborhood amenities, rental value, cost of upkeep and depreciation, cost of replacement, style of architecture, drift of population toward or away from the site, etc. While such a score-card may seem to be complicated its use would lead to a weighing of several elements of house valuation that usually receive scant attention. The valuation arrived at by such means would certainly be more largely a matter of judgment and less of a guess than the valuations arrived at by men who sit in an office or who may drive past the house and fix the valuation without an inspection.

Score Cards For Farms

Assessors need to determine the relative weights to be assigned to the various elements that enter into land values, especially of farms. Appraisers of farm values for investment companies that contemplate placing a loan on a farm use various devices for estimating the value of such farms and consider such items as the following:

1. Location of the farm
2. Accessibility and transportation
3. Character of the improvements
4. Rental value
5. Its adaptability for certain purposes
6. Neighborhood improvements
7. Population and neighborhood tendencies
8. Topographical conditions
9. Marketability and value as collateral
10. Comparison with some community standard

These separate items may be given equal or different weights in reaching a conclusion, but as long as the same weight is assigned in each valuation, the comparative values of the farms so appraised may be determined within narrow limits of error. The same principle could be applied in appraising farms for taxation and its use would certainly prevent large discrepancies in comparative valuations of property in the same neighborhood. It would take longer to do it the first time than the usual assessment takes but it would be worth the extra cost.

Score Card For Farms

The American Central Life Insurance Company of Indianapolis uses a score card in appraising values for loans on the better class of farms in Indiana, Illinois, Iowa and Ohio, and considers the elements named, weighting them as follows:

- I. Agricultural Productivity.
 - A. Natural fertility of soil, determined by color, depth, and crops growing. 12%
 - B. Area in crops 12%
 - 1. How much not in crops could put in and cost of doing so?
 - 2. What can the non-tillable land be used for?
 - 3. Are fields irregularly shaped on account of draws?
 - C. Topography 6%
 - 1. Should slope enough to drain well, but not enough to wash.
 - 2. Condition of terraces if terraced,
 - D. Drainage 6%
 - 1. Porous soil; no hard pan.
 - 2. Ditches; open, tile, outlet, condition.
 - 3. Overflow, headwater, backwater.
 - 4. Levees and levee taxes.
 - E. Adaptability To Type of Farming. 4%
 - 1. Is soil same as neighborhood?
- II. History and Condition 10%
 - A. History.
 - 1. How many tenants during last fifteen years?
 - B. Condition 10%
 - 1. Good state or run down?
 - 2. Has farm been a trading proposition?
 - 3. Commercial fertilizer used? Why?
 - 4. Is there a good orchard and garden?

III. Improvements	5%
A. House	
1. Size, foundation, frame, roof, flues, cellar, conveniences, condition.	
B. Barn	5%
1. Size, frame, foundation, roof, granary, hayfork, number of stall, condition.	
C. Other buildings	3%
1. Machine sheds, poultry and hog houses, etc.	
D. Fences	2%
1. Kind and condition of fences and gates.	
IV. Community Value	
A. Neighbors	6%,
1. Progressive? Good farms and farmers.	
B. Roads	8%
Kind and condition.	
2. main highway or side roads.	
C. Markets	
1. Distance from farm to market.	5%
2. Size of the market town, industries, banks, railroads, etc.	
D. School and Church	4%
1. Distance from school.	
2. Consolidated and high school.	
E. Health of Neighborhood.	2%

Objections may be made to this score card on the grounds that it is too elaborate and the assigned weights are too arbitrary. No doubt a large amount of investigation by experts is needed in each community to determine the weights to be assigned to the elements in that community, but a great step forward will have been taken in the appraisal of farm lands when the values of these factors are determined for each section. In any search for relief from the inequities of our tax burdens we should not overlook the possibilities for relief in any scheme based on some fundamental principle of justice.

such a plan as that suggested by the use of score cards takes into account the home and the productive value of farms. In the long run the selling price of farms would not differ greatly from the norms established by appraisals under such a plan and the fairness of the appraisals for taxation under the plan would without doubt be so much greater than it is under present methods of arriving at such valuations as to commend itself to all.

Tax Exemption

Side by side with the problem of securing a fair valuation of such property as does get on the assessors' lists is the problem of getting on those lists at a fair valuation a large amount of property that does not at present get on those lists at all. Much property is deliberately concealed and kept off the lists. Much is undervalued when its ability to bear taxes is considered and a surprisingly large amount is exempt by law. The property of educational, religious, charitable and fraternal organizations is exempt by legal sanction, and a modest amount of each taxpayer's personal property is also tax free. The United States Constitution forbids the states to levy income taxes upon the securities issued by the Federal Government and prevents the Federal Government from levying income taxes upon securities issued by the states. This condition has caused much wealth to be invested in such tax-exempt securities and thus escape its share of the fiscal burdens. Andrew W. Mellon, Secretary of The Treasury

in his book entitled "Taxation", The People's Business", p. 201, gives the following statistics to show the growth of tax-exempt securities in recent years:

1912	\$4,000,000,000.
1914	4,789,000,000.
1916	5,623,000,000.
1918	7,707,000,000.
1920	9,804,000,000.
1922	11,321,000,000.
1924	12,521,000,000.

Mr. Mellon compiled the statistics in behalf of his argument for the repeal of sur-taxes which, he claimed were killing the goose that lays the golden egg. The sur-taxes consumed so much of the income that it was more profitable to invest the wealth in tax free securities at a low rate of interest than it was to receive the larger income and pay the required taxes. They are cited here to show that a growing amount of wealth is escaping taxes and as a consequence the property not exempt must bear a growing burden of taxes. Relief from such growing burdens is hindered by by every dollar invested in tax free securities. One remedy, therefore, for the present heavy taxes is to stop such investments. It is probable that the situation must become much worse than it is now before the public will awake to the fact every dollar invested in tax free securities require some other dollar not tax free to pay its own taxes and those of the tax free dollar besides.

Issuance of Tax-Exempt Securities Should Be Curbed

The right of municipalities to issue tax-exempt securities is a constant temptation to issue such securities in larger amounts than are really necessary. It promotes the public ownership of all sorts of public utilities which thereby escape taxation. When any part of the wealth of the country escapes taxation the remaining part has to bear an increased burden. This fact can not be too strongly emphasized and its reiteration is justified. Secretary Mellon in a letter to the Chairman of the Ways and Means Committee of the House of Representatives as quoted in Report Number 30 of the House on Tax-Exemption, January 11, 1924, urged the abolition of the right to issue tax-exempt securities on the grounds that such issues were derogatory to the fiscal interests of the Federal Government. President Harding in his Message to Congress in December, 1921, and President Coolidge in his Message in December, 1923, urged the abolition of this right on the grounds that it stimulated the growth of public debts, led to municipal extravagance, and was adverse to the fiscal interests of the Federal Government. So far, however, nothing has been done ^{to} abolish the right. Tax free bonds will continue to be issued, public debts will increase, taxes will climb, and apparently nothing will arouse people to the seriousness of the situation till the inevitable day of reckoning approaches.

Tax-Exemption Opposed by Tax Commissions

The State Tax Commission of Arizona in its Report for 1924, p. 33 says:

Ever since the Federal Government commenced collecting an income tax from the people of the United States there has been a disposition to invest moneyed capital in tax-exempt securities. This has caused the issuance of many millions of bonds in Arizona that doubtless would not have been issued had not the over-zealous bond-buyers importuned the various Boards and Commissions to issue bonds for every conceivable purpose".

The Maine Board of State Assessors in its Report for 1922, p. xx, says: We believe that laws exempting property from taxation should be carefully revised. . . . We feel sure that the average tax-payer has little conception of the tremendous amount of property escaping taxation under existing laws". The Board of State Tax Commissioners of Michigan in its Report for 1923-1924, p. 16, says: "One of the worst features that creep into our general tax system is the growing tendency to exempt property from taxation". On p. 19 of the same Report it shows that \$516,643,360. of real estate in Michigan is exempt from taxation and of course there are tax free securities in addition. The Commissioner of Corporations and Taxation in Massachusetts in his Report for 1924, p. 13, says: "The problem of exempted property is one of the very serious questions facing not only this state but every state in the union." The Commissioner estimates that the people of Massachusetts bear an extra tax burden of ten dollars per capita because of property exempted from taxation.

The Special Joint Committee on Taxation and Retrenchment in New York in its Report submitted March 1, 1922, p. 62-71, discusses the disadvantages of of tax-exemption in New York in a very thorough way and gives statistics to show the amount of tax-exempt property in New York. The State Tax Commissioner of Texas in his Report for 1925-1926, justv off the press since January 1, 1927, p. 9-13, shows the amount of the footings of Texas taxables to be \$3,600,000,000. and says he is convinced that the footings should be \$8,500,000,000.

The Committee on Tax Investigation in Oregon in its Report for 1922, p. 138, recommends the prohibition of the issuance of tax-exempt securities in Oregon, The Joint Legislative Committee on Taxation in Iowa in its Report for 1923, p. 44, recommends the early abatement of the inequitable form of reward found in tax-exemption. In a Report Number 30, 68th Congress, House of Representatives, January 11, 1924, a special Committee on Tax-Exemption reported to the Ways and Means Committee in favor of adopting an amendment to the Constitution forbidding the issuance of tax-exempt securities and gave at length its reasons for such recommendation.

In commenting on the subject of tax-exemption The Committee on Taxation and Retrenchment, New York Legislative Document Number 72, p. 68, says: "These tax-exempt securities permit wide-spread evasion by individual taxpayers of just tax burdens; they permit one governmental body to profit at the expense of another and at the expense

of the interests of the community as a whole, and they put private borrowers, upon whose prosperity the welfare of the State in large measure depends, at at an unfair advantage. . . . The tax-exempt securities, issued in the quantities which are floated in this country, nullify progressive income tax rates. If the principle of progressive income tax rate is just, the issuance of tax-exempt securities is unjust".

After some discussion of these propositions the Committee is led to recommend that each governmental body pay the current competitive rate of interest on its borrowings and to tax interest under its income tax irrespective of its source whether from Federal, state or private security, and to permit each governmental body to lay its taxes as nearly as possible according to tax-paying ability which is one of the fundamental canons of taxation. Tax-exemption is a special privilege extended to those that invest in public securities. All citizens should be treated alike. Any governmental practice that permits one man with an income of several thousand dollars derived from tax exempt securities that he perhaps inherited, to escape taxation entirely while another man with the same income he has earned by his own efforts has to pay a heavy tax, heavier too because the tax-exempt man did not pay his fair share of the burden is unfair, unjust, and cries aloud for abatement.

Classification of Property May Help

One fundamental principle that should be kept in mind in determining the value of property for taxation is that all sorts of property are not equally productive of income from which taxes must be paid, and that equal amounts of property do not, therefore, indicate equal abilities to pay taxes. Accordingly it has been proposed by many students of public finance to abandon the prevalent practice of lumping all property together and taxing it at a flat rate and to substitute for it the plan of grading property into different classes according to their varying rates of productivity, and appraising the several classes at different per cents of their "full and true value" and then applying different tax-rates to the separate classes of valuations.

Successful and just tax legislation must be based upon a reasonable discrimination of difference between the things with which it deals. Laws that ignore essential and necessary distinctions between different classes of property will prove to be ineffectual even if not pernicious in their influence. We do not have uniform regulations for the transfer of property, nor for the treatment of crime, regardless of difference in conditions. And if we did have uniform regulations for the treatment of things so different, it would not any more unreasonable than it is to tax all sorts of property at a uniform rate regardless of its nature and income-earning power.

A differential classification of property with differential rates of taxation should be warmly welcomed as a desirable step in the right direction because of its promise of release from the antiquated and increasingly unendurable general property tax. It has an ethical as well as a fiscal side. The prime motive underlying such a proposal is not so much the securing of a larger revenue, though it is hoped that under wise administration such will be the result, as to spread the burden more justly to some forms of property that do not now bear any tax at all, and to reach certain classes of people who possess considerable tax-paying ability but who now escape paying any taxes whatsoever. If all wealth bore its fair share of taxation, the rate of taxation would be so low that there would be much less inducement, and certainly no moral justification, for evasion of taxation by owners of intangible property. The advocates of the differential classification of property are not blind to its defects but contend that even with all its shortcomings it is superior to the existing general property tax. They do not claim that it is any thing more than a step toward some thing better, a step in the interest of justice till the public is educated to the taking of a still longer step toward what all students of fiscal problems regard as the ultimate basis of taxation - an income tax.

Several states have experimented with differential rates of taxation on differential classes of property.

Among these states are Pennsylvania, Connecticut, Rhode Island, Maryland, Minnesota, Iowa, Montana, and Kentucky. The results in these states have not been all that the friends of the experiment had hoped to achieve, but on the whole the experiment has been considered satisfactory. There is no movement discernible in any of them to abandon it. Undoubtedly the plan would have been more successful if it had been incorporated into a well-considered plan at the start instead of being added to a system as an after thought. Much of the success of an experiment like this one depends upon the administrative machinery of its operation. Much depends, also, upon the willingness of the people to give such an experiment a fair trial. The majority of people seem to think that efforts at tax-reform are efforts to increase taxes instead of efforts to equalize the burdens of taxation and to place a part of the burden upon certain classes of property that at present either pay too small a part of the burden or none at all.

One of the purposes underlying the differential tax rate, or a classification of property as it is usually called, is to coax out of hiding much of the intangible property that has so long been driven to cover by the confiscatory rates upon such property under the general property tax. Many people would be willing to pay some tax upon their intangible property if they thought the rate of taxation were fair.

A few statistics taken from the Report of The Minnesota Tax Commission for 1924, p. 39, will show the results of Minnesota's experiment with the differential treatment of intangibles when a change was made in 1910 from a general property tax rate of 28 mills to 3 mills on such property.

Year	Number of Tax-payers	Assessed Intangibles	Rate in mills	Revenue obtained.
1910	6,200	\$ 13,919,806	28	\$371,354.
1911	41,439	115,481,807.	3	346,445.
1912	50,564	133,369,314.	3	406,107.
1913	57,063	156,969,892	3	470,909.
1914	72,266	196,548,307.	3	589,644.
1915	73,063	212,134,901.	3	636,404.
1916	74,219	234,196,268	3	702,578.
1917	87,688	284,968,875	3	854,907.
1918	98,502	330,300,219	3	990,900.
1919	109,215	359,798,976	3	1,079,399.
1920	127,471	437,628,871	3	1,312,886.
1921	118,846,	424,816,226	3	1,274,449.
1922	109,081	400,638,948	3	1,202,066.
1923	115,496	417,030,	3	1,251,091.
1924	109,969	405,480,342	3	1,216,440.

A similar law went into effect in Kentucky in 1917 with very suggestive results as shown in the following statistics compiled from the Report of the Kentucky State Tax Commission for 1924. This whole report is suggestive as it emphasizes the assessments of tangible and intangible property with especial reference to the success of the state in shifting taxation from real estate to other forms of property where much of the tax burden very properly belongs. For example, intangibles in Kentucky in 1917 paid 7.45 per cent of the state revenue while in 1924 they paid 24.69 per cent of it.

Year	Bank deposits assessed	Other intangibles
1917	\$ 11,177,196.	\$ 68,750,880.
1918	179,143,180.	246,348,379.
1919	209,363,034.	364,095,157.
1920	360,919,320.	275,486,887.
1921	284,161,878.	321,148,823.
1922	270,121,440.	309,704,155.
1923	272,201,630.	330,516,419.
1924	317,319,996.	396,829,363.

It is evident from a study of this table that a differential treatment of property in Kentuckycoaxed a large amount of intangible property out of cover to bear a share of the fiscal burden of the state. Every dollar collected in taxes upon intangibles that had hitherto escaped taxation diminished by a dollar the taxes that had to be raised from other forms of property. It stands to reason, also, similar laws wisely administered would produce similar results in other states and the classified property tax scheme should not be overlooked by those who are seeking remedies for the excessively high taxes that real estate has to bear.

As might be expected, however, opinions differ among writers on fiscal problems as to the practical value of the classified property tax. While admitting the validity of the theory underlying such a tax many question its practical application. E.R.A.Seligman in his Essays on Taxation, Chapter XX, emphasizes the defects and difficulties of the tax, while C.J.Bullock in A Classified Property Tax, Proceedings of The Third Conference of The National Tax Association, p. 96, minimizes the defects and difficultiesSee also the Proceedings of the Tenth Conference, p.362.

H.L.Lutz in his Classification of Property for Taxation, passim, argues the advantages of the Tax. J. G. Brindley in the Quarterly Journal of Economics, Volume XXX, p. 588 et seq., claims the real explanation of the failure of the classified property tax, especially in Iowa, is due to the defective administration of the laws rather than to defects in the theory upon which it is founded or in the laws themselves. While admitting that a classified property tax is for most states a desirable forward step, E.R.A.Seligman says in his Essays on Taxation, Ninth Edition, p. 650, that the energy spent in promoting a classified property tax might better be spent in promoting a still better tax. It seems that in his opinion the good is the enemy of the better, and in the Essays p. 657, he advocates the abolition of the general property tax and the substitution for it of a personal income tax which he considers the ultimate goal of tax reformers.

An Income Tax

In our search for remedies for the inequities of taxation upon real estate in general and farm real estate in particular it is well to consider the possibilities for relief to be found in an income tax. The prime purposes of an income tax are to reach a class of people and property that are not bearing a fair share of the tax burdens and to reduce thereby the burden upon real estate. Any reform that promises to help in accomplishing either or both of these desirable results is worthy of consideration.

The theory of the Income Tax is sound. One of the fundamental canons of taxation is that any man with taxable ability to pay taxes should contribute to the support of the government under which he lives and from which he derives protection. Property is no longer a satisfactory evidence of ability to pay taxes since in modern times wealth is derived in larger and larger degree from opportunity and all manner of exertion that are independent of property, but not independent of social relations. With the economic evolution of society there has been a large increase in the number of people who derive their living from salaries and the income from intangibles and thus escape paying a property tax. With the diffusion of the benefits of government to all classes and a growing tax burden that property owners do not and can not escape, it is becoming more and more necessary to find some way to reach all who benefit by the functions of government, and one way of reaching all beneficiaries of government who are more or less exempt from paying taxes is an income tax levied for the express purpose of reaching these people and of lightening the burden of the classes that have hitherto had to bear it.

The Eleventh Report of The Michigan Boards of Tax Commissioners and State Board of Assessors, 1920, p. 25, et seq., says the professional and salaried classes are generally well educated and require more of society than the average individual requires, and yet the general property tax fails to reach this class of citizens and they contribute little to the support of government and social

welfare. That income taxes do reach these classes and do accomplish their purposes in considerable measure is the opinion of The Joint Committee on Taxation and Retrenchment of the State of New York in its Report for 1916, p. 195 et seq.

Income Taxes Work Well in Some States

Moreover, the income tax works well in Wisconsin, Massachusetts, New York and North Dakota. Tax Commissions in other states in search of ways and means to spread the burdens of taxation more equitably upon those who profit by them, and seeking new sources of revenue to relieve burdens upon real estate, and especially farms, are giving serious attention to this form of relief. In states where this tax has been tried and pronounced more or less a failure the failure is attributed by those in a position to know to defects in the laws and in their administration and not to any unsoundness in the theory underlying such taxes.

Indorsed by Several Tax Commissions

The Oregon Committee on Tax Investigation, 1923, in its Report devotes pages 75 - 85 to a discussion of the need of such a law for Oregon and urges the adoption of such a measure. The Bulletin, Number 234, issued by the Kansas State Agricultural College, p. 43, is very favorable to an income tax for Kansas. The Report of The Joint Legislative Committee to the Fortieth General Assembly of Iowa, 1923, p. 46 etseq., advocates and recommends such a tax for Iowa. The Report of a Special Tax Commission

of the Eighty-third General Assembly of Ohio, 1919, p. 124, urges such a tax for Ohio. The Report of The Nebraska Special Joint Commission on Revenue and Taxation, 1921, p. 171, a Report of The Special Tax Commission of Gerogia, 1919, p. 43, The Report of the Joint Special Committee on Revenue and Taxation in South Carolina, 1921, p. 97, and the Report of the Wisconsin Tax Commission, 1920, p. 52, are all favorably disposed toward such a tax for their respective states. The interest in the income tax as shown by these Commissions is sufficient to warrant the conclusion that state income taxes are worthy of serious consideration by those concerned in fiscal reforms elsewhere. The fact that so many different bodies concerned with problems of taxation and in search of remedies and means of relief from the high taxes of their states should turn their attention in the same direction is evidence of great possibilities in such a tax.

No tax is perfect and the income tax has its defects of course, but it works well in some states and in England, germany, Italy, and New Zealand. It stands to reasons that it is possible to profit by the study of the law where it does work well and by the mistakes of the states where it has been tried and has not worked so well and frame laws adapted to the different conditions that prevail in the different states. We must be willing to try promising measures for relief from the fiscal burdens that vex us or endure the inequities of the present system a long time .

The National Tax Association appointed a committee to draft a model system of taxation adapted to state and local conditions and in the Proceedings of the Association for 1919, p. 10-19, the Report of the Committee is strongly in favor of a personal income tax as the best way to widen the base of taxation in the interest of justice since under a democratic form of government as few people as possible should be exempt from making some contribution, no matter how small, to the support of the government under which they live and whose benefits they share.

The difficulties inherent in the problem of a smoothly running income tax law are numerous and knotty, but they ought not to deter us from making an attempt to solve them. If we are not sufficiently intelligent to devise a fair, just, adequate, scientific system of taxation that will equalize tax burdens in the interest of justice and public welfare, we deserve to bear indefinitely the injustices and iniquities of the present system as best we can and obtain such satisfaction as we may from grumbling and complaining that our taxes are too high and those of the other fellow are too low. At any rate, the next best step to take in fiscal reform that promises to relieve the burdens upon real estate lies undeniably in the direction of an income tax.

The Income Tax Misunderstood

A proposal to establish an income tax in Colorado was voted down by the people a few years ago, and a similar proposal has recently been rejected by the voters in Oregon.

In both cases there seems to have been an impression on the part of the voters in both states that an income tax would be merely an additional tax and that taxes would be increased instead of diminished. The propaganda in behalf of the reform did not make clear to the voters that every dollar raised by an income tax would diminish by a dollar the taxes to be raised on property and that such a tax was designed to reach a class of people who had been escaping their fair share of fiscal burdens. An income tax is not designed to secure more money to spend but to increase the number of shoulders upon which the burden will rest. Those who have been escaping their due share of taxes are of course unwilling to assume them voluntarily and so vote against them. The acceptance by every body of his full civic responsibility is not to be expected. It is more popular now to propose heavier taxes for the rich than to propose taxes for those who are escaping taxes entirely and yet are far more able to pay taxes than many now paying them. As matters now stand, the burdens, injustices and inequities of the tax system are sure to become worse than they now are, and it behooves us to make use of every promising source of help in overcoming the troubles, and help will not be had, can not be had, except by departure from the accustomed methods of taxation by a trial of methods more in harmony with the changed conditions of our economic and industrial life. The sooner this fact is realized the better.

The General Property Tax

There is a growing feeling among Tax Commissions, Governors of States, students of fiscal matters and writers on taxation that the general property tax which forms the backbone of our scheme of taxation has been outgrown by changes in our economic and industrial life. When property was homogeneous and consisted largely of such tangible things as land, farm implements, cattle and household goods, the possession of property was a fairer indication of its owner's ability to pay taxes than it is now, and it worked fairly well. But the Industrial Revolution caused a change in America from a primitive, agricultural to a highly complex industrial life so that the fiscal machinery of the old order is not suited to the needs and conditions of the new order. The cooperative and collective social life of the times makes greater and greater demands for revenue and justice requires that the burdens of taxation be equitably adjusted. Ample revenue collected with justice calls for supplementing the general property tax by other forms of taxation that are in harmony with the facts of modern life.

There is no one fiscal policy suited to all sections of a country as vast as ours with its industrial and economic conditions varying so widely, with highly developed industrial conditions prevailing in one section and condi-

tions not far removed from the primitive life of the frontier prevailing in others. Yet in spite of variety of conditions there is an element of homogeneity to be found in all sections and because of this homogeneity the general property tax is the main reliance in all sections for raising revenue. Progress in taxation has not kept pace with progress in the business world and so our fiscal machinery is out of gear with the times. The general property tax no longer reaches all property, nor does it treat fairly what it does reach. The greatest cause of dissatisfaction with this tax is its increasing difficulty of administration so as to prevent a growing body of personalty from escaping its grasp. The general property tax attempts to tax all property at the same flat rate regardless of its nature and productivity while property is rapidly changing in nature and productivity. The escape of personalty from taxation even though it has high tax paying ability is one of the scandals of the time. There are so many intangible forms of wealth that were unknown when the general property tax was adopted in this country as the main source of revenue that the failure of the tax to meet these new situations makes some reforms in its administration imperative. For example, the modern corporations were unknown and efforts to secure a just tax return from corporations by means of a flat rate general property tax has failed and must continue to fail. It has failed so badly that its persistence is a reproach to any people.

There are several classic canons of taxation that a system of taxation should meet, and among these canons are those of equity, universality, ability to pay and the impossibility of being shifted. The general property tax fails to meet every one of the canons. The degree to which this tax falls short of being what a tax system should be is reflected in the opinions of fiscal authorities who denounce it in no uncertain tones. The following criticisms of this tax are gleaned from many sources and are cited to show the nature and the strength of the feeling against it:

In the United States the general property tax is a dismal failure. (E.R.A.Seligman, Essays on Taxation, Ninth edition, p. 31.) A cruder instrumentality of taxation has rarely been devised. (Leroy-Boillieu, Science of Finance, p. 498.) A more unequal, unjust, and partial system could not be devised. (First Annual New York Assessors' Report, p. 12.) It is so flagrantly inequitable that its retention is due to ignorance or Inertia. (Seligman, op.cit, p. 62.) The system is a farce, sham,humbug. (New York Assessors' Report, 1879, p. 23.) The Joint Legislative Committee on Taxation, State of New York in its Report for 1914, p. 31, et seq., discusses the situation and says the general property tax has had a fair trial in nearly every state in the union and has every where proved a failure. The Report of the Uommission on Taxation in Massachusetts, 1908, p. 22-24,25,26-28, 33-34, laments the failure of the general property tax to prevent the escape of intangible

from taxation and quotes from a similar Commission of 1897 which says the general property tax is blind, uncertain, unequal, haphazard, unsatisfactory and demoralizing. The Report of The Maryland Commission in 1888, p. 101, 103, 151, calls attention to the shortcomings of the general property tax in Maryland and says the system is so radically wrong that the more it is improved the worse it becomes. A Virginia Tax Commission in its Report for 1911, p. 69-70, admits the failure in Virginia and urges the overhauling of the tax system. A Report of a Kentucky Special Commission, 1912, p. 83-84 in pointing out the results in that state remarks with biting sarcasm that the State of Kentucky derived more revenue from its dogs than from all the bonds, moneys and stocks in the state. In the Report of The National Tax Association, Volume IV, p. 309, et seq., we find the report of a committee which says:

Your Committee finds that the general property tax system has broken down.

That it is not more successful under strict administration than where the administration is lax.

That in the states where its administration has been most stringent, the tendency of public opinion and legislation is not toward more stringent legislation, but toward a modification of the system.

That the same tendency is evident in the states where the legislation has been more lax.

That the states that have modified or abandoned the general property tax show no intention of returning to it.

That in the states where the general property tax is required by a constitutional provision, there is a growing demand for the repeal of such provisions,

We conclude, therefore, that the failure of the general property tax is due to inherent defects in its theory.

That even measurably fair and effective administrative is unattainable; and that all attempts to

strengthen such administration serve simply to prolong the the inequalities and unjust operation of the system.

It must be kept in mind that in all the talk about the failure of the general property tax no one proposes to abolish it and to substitute other forms of taxation in its place. The main contentions are that the tax is no longer a fair or just form of taxation and that it needs to be modified and supplemented by other forms of taxation, especially by forms more in harmony with present fiscal needs and economic facts. The failure of the general property tax to reach all forms of property and to provide ample revenue without overburdening the property that it does reach leads to the inevitable conclusion that we must have a more diversified system of taxation. A scientific system of assessment by trained assessors acting under the civil service during good behavior, a classification of property that is rational, the development of income and occupational taxes, and the extension of taxation into the fields of luxuries and consumption, etc., may furnish the necessary diversity, provide ample revenue and equalize the tax burdens with some degree of justice. It is really time to stop so much investigating and reporting that does not lead to action and do something. Even faulty action is more likely to produce desirable results than inaction. We are satiated with investigations that lead to reports that are filed and forgotten.

THE EXPERIENCE OF OTHER COUNTRIES

Since tax reform is in the air it may not be amiss to inquire what similar reforms have been tried in other countries, what goals they have sought to reach, in what spirit they have striven with this perennial problem. England, Holland and New Zealand have been experimenting with their problems which in many ways resemble ours, even though they do not have a dual form of government with constitutional restrictions to hamper them. They have tried to adjust the burdens of taxation fairly and equitably among the different classes and to reconcile their local and central jurisdictions in levying taxes.. The one very noteworthy feature of their efforts is their strides away from the general property tax. They have recognized the facts of modern life with its changed industrial and economic conditions and have tried to adjust their schemes of taxation to them. Graduated inheritance and income taxes are prominent in their legislation and in the writings of their tax experts. They have evidently made justice as well as revenue their aim.

These countries in facing their fiscal problems incident to the development of industrialism and altered conditions of modern life were confronted by two major problems; viz, that of securing a juster distribution of taxes over the different social classes than had prevailed, and the adjustment of local to national taxation. They

were not hampered, however, as the United States are by a dual form of government with constitutional restrictions upon the activities of the states. They had to recognize the existence of classes that had had less than justice at the hands of the ruling class and who were becoming restive under their burdens. They found that modern democracy demands democracy in taxation as well as in government.

In England tax reforms took the direction of correcting some of the inconsistencies of the old order by the introduction and extension of the principle of ability to pay in inheritance and income taxes. This was shown by the larger exemptions granted to people with the smaller incomes.

In addition the reforms wrestled with the long needed adjustment of local and national taxes. This was necessary to quiet a growing dissatisfaction with the burdens of local taxation which began in England soon after the Industrial Revolution. The first forms of local relief were obtained by granting to the local governing bodies, as subsidies or grants-in-aid, some revenues that has before been the portion of the imperial government. A similar relief might be had in this country if war were eliminated and some sources of revenue now the portion of the Federal Government could be turned over to the States. Some excise and license taxes together with some probate duties upon inheritances were used to lighten the local tax burdens.

The inheritance taxes in England have been revised from time to time not so much for the purpose of increasing the imperial revenue as to lighten the burdens of local taxation.

While these reforms were being made in England similar reforms were being attempted in other parts of the empire. In New Zealand for a time, as in all primitive and industrially young countries, the main dependence for revenue was the general property tax, but toward the close of the last century this tax was superseded by a land tax, graduated inheritance taxes, and progressive income taxes. The general property tax had failed in New Zealand as it had failed elsewhere to keep personalty from escaping its share of the common fiscal burdens. The plain intention of the New Zealand law-makers was to make large wealth pay a larger share of the taxes than it had paid and to subject to taxation classes of people and of property that had been exempt. In all its fiscal legislation New Zealand emphasized the ability to pay.

Both England and New Zealand entered upon their reforms to quiet popular clamor. At about the same time, Holland began fiscal reforms, not to quiet popular clamor, but as a result of a scientific study. This study led her to realize that the older forms of taxation were no longer consistent with the facts of modern life. Her Minister of Finance in 1892 began his campaign by proposing to equalize the tax burdens carried by the poorer and the

wealthier classes and justified his proposal on the ground that the poorer classes paid too much taxes and the wealthier classes paid too little and that whole classes escaped taxation altogether. Tax reforms in Holland did not fare well because the reforms were bound up with the political fortunes of her ministers of finance. The reforms are noteworthy not so much for what they actually accomplished as for the purpose back of them and the recognition of the fact that fiscal matters in Holland were no longer in harmony with modern life. The fundamental feature of the reforms that did result was a modified property tax with complementary income taxes aiming to reach the taxable ability of the individual. Partial as the reforms were they did accomplish something in the way of readjustments of inequalities of taxation in the interest of fairness and in securing a recognition of the principle of ability to pay.

While England, New Zealand and Holland were making efforts at tax reform Prussia was also making efforts to reconcile local and national taxation. This was, and still is, the major problem in countries like Switzerland, Germany and the United States which have three overlapping tax jurisdictions which need to be adjusted harmoniously. The National Governments in all such states dominate. As the greater part of our taxes are local we can not afford to ignore any experiments and partial successes in solving problems similar to the ones we have.

Switzerland is the only other European country from which the United States is likely to obtain helpful suggestions on the subject of taxation. Switzerland, like the United States, has retained some form of the medieval general property tax to the present time. Unlike the United States, however, she has attempted to supplement this tax by other taxes in harmony with changed industrial conditions. She has tried to apply the principle of ability to pay and has paid increasing attention to product and income. Only three of the smaller and more primitive of her cantons still retain the general property tax as their main reliance for income and only one depends upon the land tax.

Before turning to the newer forms of taxation Switzerland made earnest efforts to remedy the defects of the assessment of general property. She tried self-assessment, both under oath and without it, the publicity of assessments and secrecy, and still failed to secure adequate and proper listing of property. She then developed a scheme to correct the abuses of failure to list property by a device known as the inventory. Upon the death of a tax-payer the government takes charge of his property till a thorough inventory is taken, and if it can be shown that fraud or deception in the listing of his property took place, punitive taxes, reaching back at times for several years are imposed upon the estate. While this device has rendered good service in increasing tax receipts it is needless to

suppose that the device is very popular, and any suggestion of introducing the device into the United States would create a decided sensation.

Switzerland has definitely accepted the principle of progressive taxation and has applied it to all her taxes, income, inheritance and property, and the several cantons have incorporated the principle into their constitutions, some with limitations upon the amount of progression and some without. The important thing to note in this connection is that it has never been abandoned where it has once been tried.

Switzerland has also made attempts to reach another goal favored by tax-reformers in the separation of local and national revenues. The income tax is national while property taxes are local. The principle of progression is applied to the national tax while the local taxes are proportional. Property is classified and is assessed according to its market, sale, insurance and par value, and a distinction is made between funded and unfunded income. It is evident that Switzerland has taken several forward steps in the matter of taxation and the American Commonwealths might profit by her experience and example.

It is evident that there is in all these countries a growing tendency to rely more and more upon inheritance and income taxes, an insistence upon the principle of ability to pay, the abolition of privilege, and a growing consciousness of the social aspects of taxation, and

an attitude of considering taxation as a unit for the entire country and not a matter of local and national taxation separately. Attempts have been made to segregate the sources of income but to collect the taxes by the taxing unit by which it is best collected and then distributing the proceeds to the several units involved. The American counterpart of this would be the collection of some taxes by the state and then distributed to the counties, and the collection of other taxes by the counties and then sent to the state. But there is another feature of the segregation of sources that merits attention. For example, a state might procure ample revenue from income and corporation taxes and leave all other sources of revenue to the counties and local taxing units for their needs. This involves a state-wide tax for state purposes and local taxes for local purposes. It has been suggested in this connection that the expenses of the administration of all state offices and bureaus, all highway taxes and all taxes for educational purposes should be raised by a state-wide levy, while the expenses of the counties and other local units should be provided for by local taxation. At least, these are some of the suggestions growing out of the experiences and practices of those foreign countries that have the best developed fiscal systems, and they merit more attention than they have yet received.

Summary and Conclusions

We have thus far discussed the facts about taxation and possible sources of relief from the heavy burdens of taxes of which farmers and land-owners generally have been complaining. The facts are startling, the need for relief is urgent, but the problems involved are not easy to solve.

When we consider possible sources of relief two matters stand out clearly; we must either spend less money for public purposes, or we must find some ways to increase the public revenues without increasing unjustly the burdens now borne by the tax-payers. It will require heroic self-denial to forego the services of government to which we have become accustomed. But in spite of its desirability the outlook for material relief by this method does not seem promising. Even with considerable retrenchment taxes will continue to be heavy, for, in addition to heavy taxes for current expenses the vast public debts, both principal and interest, must be paid off.

Since adequate relief through retrenchment and wiser spending of the public revenue does not now seem possible, the only other sources of relief lie in the direction of a thorough overhauling of our tax system. The main purpose of the overhauling should be to devise plans to spread the burdens of taxation more widely and more justly. We have discussed such possible means of relief as the abandonment of the general property tax as the main reliance for revenue,

the classification of property in accordance with its income earning power, the taxation of intangibles that now make demands upon the services of government and yet make no contribution to its support, the imposition of an income tax with a view of reaching much tax-paying ability that now escapes taxation, the necessity for reforms in assessing property, and some of the experiences of other countries in dealing with their fiscal problems. In these suggested reforms the farmers and small land owners have every thing to gain, little to lose, or even to risk. Unless we abandon some of our conservatism we are not likely to secure relief in the only directions in which it is to be found.

The United States has forty-eight states each with its own peculiar needs and conditions. A fiscal system adapted to one state may not be adapted to another at all. Highly industrialized states differ greatly in fiscal problems from agricultural states. The whole problem is a big one and its solution is a challenge to the most constructive statesmanship of which we are capable.

Since each state must solve its own problems in its own way, though it should not ignore the experience of other states, one of the best ways would be to revitalize the Tax Commissions by giving them ample facilities in a trained force for both office and field work, place them under the civil service during good behavior, have them call upon the departments of economics of the colleges and

universities for counsel and suggestions and direct them to revise the revenue laws of the states in accordance with the best canons of taxation and the industrial and economic conditions of the states. The best available talent should be employed, going outside the state if necessary to secure it. The aim should not be to patch up the old systems but to construct a real revenue system with each part built into the whole so that all parts will function harmoniously in the interests of both revenue and justice. We are profoundly convinced that tax reforms that aim at less than a rebuilt revenue system will fail to secure justice for the land-owner in general and the farmers in particular. If revitalized Tax Commissions duly constituted and amply financed can not accomplish this task, we may as well admit that democracy is not competent to deal with the problems that it creates.

PART II

FARM RELIEF

Business Cycles

The agricultural prosperity during and after the Great War was not normal and was due to be followed by a period of depression. Business has a way of running in cycles more or less regular, from prosperity through speculation and over-trading, through periods of panic, stagnation, liquidation, recovery, to prosperity again. Agriculture is sensitive to changes in business prosperity and tends, therefore, to run through the gamut of changes that business does. The length of the cycles as a whole and the length of the stages vary in a closely related way. Whatever affects business affects agriculture. Periods of prosperity and of depression seem inevitable in business; they are not less so in agriculture. Like the diseases incident to childhood they run their course, the patient recovers and is seldom the worse for the attack however uncomfortable he may be while the attack lasts. But the present agricultural depression, following as it did, a period of unusual prosperity, seems by contrast to be period of unusual depression. If it had not come on so suddenly and lasted so long, it might not have caused the unrest that has led the American farmer to turn to legislation in his behalf as the quickest and surest way out of the period of depression.

The Present Depression Rapid, World-wide, Inopportune

Rarely, if ever, has a trade cycle run the course from prosperity to depression more quickly than since the close of the Great War. Successive phases of the cycle appeared in almost identical times in different parts of the world. China, Japan, India, Java, Australia, Canada, Great Britain and the United States all underwent almost identical experiences. The turn in the tide of prosperity reached the United States in 1920 about the time the farmers were marketing their crops. A falling export demand with a previous decline in the prices of live-stock and live-stock products, coupled with an abundant supply, resulted in a more rapid decline in agricultural prices than took place in the prices of other commodities. Consequently the American farmer had a greatly diminished income due to his diminished crop-purchasing power. This lowered economic status was, not only absolute but also relative to that of other classes, has led to insistent demands on his part for relief through artificial legislative interferences with the economic laws of supply and demand. Supply has not fallen off as much as demand has and now the farmer would like to have demand stimulated without any lowering of prices due to curtailed production.

The Problem of The Surpluses

It is inevitable at times that the farmers of the country should produce more than is needed for domestic consumption even when consumption is stimulated by lower

prices. Agriculture at best is a gamble with weather, insect pests, plant and animal diseases, and the bounty of nature. When a combination of favorable conditions conspire to favor the farmer agricultural production will outrun marketing needs. This surplus produces effects out of proportion to its size. The Congressional Joint Committee on Agricultural Conditions, Report Number 408, 67th Congress, 1st Session, p. 15, says that a deficiency of one-tenth in production of any staple will increase its price three-tenths, and that a deficiency of two-tenths will increase its price eight-tenths. The same law applies to surpluses. Any production of a staple above domestic needs, unless it can be exported, will tend to depress prices in the same ratio. President Harding in his address before the Agricultural Conference in Washington in 1922 as quoted in Document Number 195, 67th Congress, 2d Session, p. 11, says:

"It is rather shocking to be told, and to have the statement supported, that 9,000,000 bales of cotton raised on American plantations in a given year, will actually be worth more to the producers than 13,000,000 bales would have been. Equally shocking is the statement that 700,000,000 bushels of wheat, raised by American farmers, would bring them more money than a billion bushels."

Since surpluses and deficiencies of the staple crops produce fluctuations in market prices out of proportion to the size of the surplus or deficiency, it is evident that the consumer as well as the producer is interested in preventing these fluctuations if it is possible to do so.

How to prevent either a surplus or a deficiency in the present state of hap-hazard, unorganized production, and so stabilize prices, is a mystery. A reduced acreage with unfavorable weather conditions might result in a dearth bordering on famine. If surpluses followed deficiencies in any orderly way, a plan of carry-over from years of surplus to years of deficiency might help to solve the problem. But lean years are not common in American agriculture. Since we are more likely to have surpluses than to have deficiencies, the problem of disposing of the surpluses becomes increasingly urgent.

The Export Corporation

Since surpluses are actually on hand it is natural that the first thought should be how to dispose of the surplus rather than how to prevent it, even if preventing it were wise. The excess of production above the domestic needs and export demand has led the farmers of the Middle West to urge the formation of an export corporation to take care of it. By this means it is proposed to sell the surplus crops abroad for what they will bring and the deficits incurred in the marketing are to be taken care of by taxation or by an equalization fee assessed against the producer. The rest of the crop is to be sold in the domestic market with a tariff wall around it sufficiently high to keep out competing imports

till the prices rise high enough to insure the farmer a fair and reasonable price for his crops. The underlying implication of the plan is that the farmer may grow any amount of any crop regardless of the country's power to absorb it and that it is the business of the government to dispose of any surplus. Who is to determine what amount of a crop constitutes a legitimate carry-over, just where the surplus may be said to begin, who is to determine the fair and reasonable price, has not been settled. Domestic consumers are as much interested in these questions as the producers are.

One of the arguments in behalf of the formation of an export corporation to handle the surpluses is that owing to the fluctuations in the volumes of crops it is necessary for farmers produce an excess in order to insure having enough, and the public ought to be willing to pay for this excess for its own protection. The farmer is under no obligation to engage in unprofitable enterprises merely to protect the public. All doubts about regarding the matter should be resolved in his own favor.

The one essential condition of successful price-fixing, price-regulation or price maintenance, is ability to control production, and in the case of agricultural products this is manifestly impossible. So the case for controlling or stabilizing the prices of farm products by means of an export corporation is weak at its best, but is strongest in the case of wheat for the demand for wheat is

relatively inelastic. That is, within reasonable limits consumers will pay higher prices for wheat without reducing the consumption of it. Within reasonable limits also, foreign markets will absorb more wheat without a marked reduction in its price. Price-fixing of wheat by the export corporation methods would mean in practice the guarantee of a minimum price. Unless the losses incident to the sale of wheat in the foreign markets are taken care of by an equalization fee upon the domestic sales of the producer, it is very likely that without some other form of repressive measures the acreage given to the raising of wheat would sharply increase with consequent larger surpluses for export sales.

Regulating the price of corn presents a different problem. The export market for corn is so small as compared with the domestic market for it or for wheat that if sufficiently large quantities of corn were bought up to raise the domestic price to a satisfactory point, surpluses unsalable abroad would be piled up and their disposal would present a serious problem. At the same time the higher price of corn would result in a higher price of meat with consequent effects upon the cost of living and wages.

Price control of cotton would be so much more difficult that price control of wheat, meat or corn, that it has been recognized as being practically impossible and many proponents of the export corporation idea suggest that

cotton be not included in the export corporation's field of activities, and that cotton growers be recompensed by some form of bonus.

It must be kept in mind that agricultural products are the raw materials of many American manufacturers. The plan of the export corporation would thus increase the price the manufacturers would have to pay for their raw materials while their foreign competitors would be getting theirs on a bargain counter. Foreign labor would also be getting food cheaper than American labor. This situation would soon call for either a higher tariff on imported goods or some rebate to American manufacturers of the price differential paid by them on goods made for export. It is apparent that an export corporation might not do what its advocates think it will do, and that it may do a lot of things that its advocates have not thought out carefully.

Sir Josiah Stamp, a noted English economist and a member of the Commission that formulated the Dawes Plan of Reparations, in a letter to Vice President Dawes replied to some questions concerning the scheme of agricultural relief embodied in the Haugen Bill. Like other economists Sir Josiah is dubious about the success of the scheme. He said, however, that under certain conditions that the scheme is "economically feasible and not fallacious". Leaving out of account the restrictions with

which he safeguarded his statements the friends of the relief scheme have taken the words "economically feasible and not fallacious" as an endorsement of the plan. What he said was that if enough home production could be exported to produce a scarcity, and if the tariff could be kept high enough to exclude imports, the domestic price could be raised to the foreign price plus the tariff and transportation charges. This is, of course, self-evident. But he went on to say:

"It seems to be assumed that the object of the scheme can be achieved without any increase in the volume of the exports. - - - It seems extremely unlikely that the farmer will be able to secure a larger domestic price for the domestic consumption if the volume of supply is left entirely untouched. The price is almost entirely determined by the flow of demand and supply. Should the supply be left entirely unaffected in each particular season, how can one expect to secure a higher price? The problem can not be discussed on this basis. To get a higher price supply must be restricted; a larger quantity than would otherwise be the case must be exported by the Export Corporation".

That is to say, a scarcity must be created and any increase in production due to placing a commodity on a profitable basis would have to be exported. Moreover, he warns that the effects of the plan would not be confined to the ends the scheme has in view. He says:

If the price of wheat is to go up considerably in the United States, then there seems to be a very fair possibility that it will have reactions on the whole economic condition of the country. The cost of living may be considerably enhanced and may lead to a wide circle of demands for increased wages. If this should be so, all costs of production will ultimately tend to rise slightly and there would follow, probably after many

struggles or at least protracted negotiations, a new division of the product of industry, Such a movement would set up many new political forces and it is very difficult for an observer on this side even to begin to formulate the ultimate outcome".

It is evident enough that Sir Josiah thinks it probable, to say the least, that an increase in prices of agricultural prices would start a general inflationary movement and that farm prices would not be the only ones to rise, and that the farmers even though aided by a cumbersome governmental agency would not be an equal match for labor organizations in a competitive struggle of this kind.

He also gives a further warning as to possible outcomes of the activities of the Export Corporation, especially the possibility of retaliation on account of the dumping of farm products abroad at prices lower than those considered "fair and reasonable" at home. He says:

"It is possible, also, that the scheme might have international reactions. There is always a considerable amount of feeling on the question of dumping and it might be alleged that, in effect, the scheme constitutes the dumping of wheat on a very large scale. This aspect of the matter, again, is very difficult to discuss, but it may be desirable just to bear it in mind. (For instance, Mr. Hoover's recent denunciation of restriction schemes for rubber and coffee.)"

Sir Josiah has thus reminded us that we should not do the things we criticise other for doing, and we may be reminded again the the United States has had an anti-dumping section in its Tariff Laws for many years and

has used it several times. The assumption that we may dump our surpluses on foreign markets as we please may be fallacious.

Illusions Regarding Markets

The farmers of the Middle West seem to believe that there is somewhere in foreign countries an unlimited market at high prices for our products. But Europe is recovering her food producing power and we shall certainly not be able to compete ON OUR OWN TERMS with Australia, Canada and the Argentine, or other regions yet to be opened up. Any relief that an export corporation might give would be palliative and not curative of the surplus evil, and unless it were wisely managed it might cause evils as great as those it is designed to cure. As Sir Josiah Stamp intimated it is thinkable and therefore possible that as soon as it is established that the Government is to take care of the farmer's surplus products for him, the manufacturing and laboring classes will demand that a similar service be rendered them.

When the Export Corporation looks abroad for a market for its goods there must be some attention paid to the customer's ability to pay and the manner of the payment. The farmer's products can be paid for in gold, goods or services. The necessary gold is difficult for Europe, especially, to get. The goods we exclude by a tariff wall, and the services that Europe can render us

are inadequate to carry on any considerable volume of trade, and besides the gold, goods and services are needed to pay for a lot of goods that are not agricultural products. Then, too, we must consider where Europe can buy her food-stuffs to best advantage and we need not be too sure that we are to be the preferred creditor. Europe will trade where she can trade to the best advantage to herself, and this means where she can for goods with goods, and where the rates of exchange are most favorable to her, and where she can secure the best terms of credit. It must not be assumed that the United States meets these requirements most fully and satisfactorily.

Between 1880 and 1900 Northwestern Europe underwent a process of industrialization that made her a great market for the food-stuffs of the United States. But as industrialization progressed this region very naturally sought markets for her wares where she could trade them for food products. Germany, for example, developed the Russian and Danubian markets for her wares and took agricultural products in exchange. In the same way she developed markets in South America. As the prices of American food-stuffs rose Northwestern Europe began to develop her own agriculture. The Great War interrupted this decline of imports from the United States and for a few years greatly stimulated American production. The supplies of food from the usual sources were cut off by the difficul-

ties of transportation and greater dependence was made upon the United States partly because of the nearness of the United States and partly because she was making loans to the Allies for the purchase of foods and munitions. As Europe recovers from the effects of the War she will develop her own agriculture as she was doing when the War began. So, to build too high hopes on an expected recovery of a European market for American agricultural products is very likely to lead to disappointment. Till we evaluate the relations of European markets to American agricultural prosperity we shall not make satisfactory progress toward the solution of our problems. Whether we plan emergency relief measures or long-time programmes we must consider prospective European market conditions. It is a recognition of this fact that leads E. G. Nourse in his book on "American Agriculture and The European Market", p. 236, to say:

"As Europe in the position of a heavy creditor of the United States was declining in importance as a market for our agricultural produce at pre-war levels of price, a less prosperous-not to say crippled- Europe, shorn of her credits here and our debtor on a tremendous scale, can not be expected to be a good market at present and prospectively higher levels of price. Hence agricultural exports may be expected to drop still further in 1924 and thereafter. For American agriculture to plan her future building on the foundation of an expected revival and growth of the European market would, therefore, mean building on quicksand".

Aside from the objection to the export corporation that it is quite likely to fail to do what its proponents think it will, especially as the idea is embodied in the Haugen Bill, there are other objections some of which are made to the details of the organization and some made to the constitutionality of various features of it. The equalization fee would be difficult to collect and would require a very cumbersome machinery for its collection and its constitutionality is open to serious question. The method of selecting the members of the Federal Farm Board appears to limit the President's appointing power in an unconstitutional way and is likely to bring the Bill upon the rocks of a presidential veto if this bill or one like it is presented to him for his signature. Economists almost without exception condemn the measure as being economically unsound because it offers inducements for the production of crops in excess of the want for them.

If any of the farm relief measures embodying the export corporation become law the United States would be required to enter the largest commodity speculation known in history with excellent prospects of incurring heavy losses. The effect upon the cooperative marketing movement is problematical. Its interference with private business by interfering with marketing channels would likely be serious, and reliance upon it would divert the attention of the farmers from more effective means of relief.

The Scope of Marketing

The Export Corporation is concerned with the marketing of the farmer's surplus crops with a view to increasing his income and thereby increasing his prosperity or economic status. But the farmer's economic status may be improved by diminishing his costs of production, improving his management, increasing his efficiency in marketing so that he may get a larger portion of the consumer's dollar. In the last analysis increasing his efficiency in marketing means that it is to be done at the expense of the middle men.

No discussion of marketing can proceed very far before raising the question as to whether it shall be taken to include all the steps between the producer and the ultimate consumer or whether it shall be considered as the first step in this process by which goods pass from the producer to the first buyer. In one case the process is exceedingly complicated; in the other it is very simple.

With the growth of big cities, the increasing divisions of occupations and the growth of merchandizing, a large number of people began to make their living by acting as middlemen between the producers of all kinds of commodities, including farm produce, and the ultimate consumers. With improved standards of living people have come to accept the services of middlemen as a matter of course, and even to demand them. Consumers

must have their goods at convenient times, in convenient quantities, available at a moment's notice, and, in many cases, on credit. Much food is perishable and requires expensive facilities for storage. This service the farmer is not in position to render and so it has been taken over by middle men.

The farmers are more and more becoming concerned with production and not with the services necessary to get their products to the consumers. The assembling in lots for shipment to terminal markets, grading, standardizing and the like are left to middle men. When individual shipments are made, too often a considerable part of the shipment may spoil in whole or in part before it reaches a consumer and thus cause loss for transportation as well as of the goods spoiled. If the producer is the shipper he runs many risks that he avoids if he sells his produce outright to a middle man and lets him run the risks.

The terminal facilities are often inadequate to handle heavy shipments during the rush seasons for perishable goods. The places where unloading takes place are often inconveniently located, scattered and altogether unsuited for the purpose. Goods in cold storage during transit soon spoil when taken from the cars and exposed to heat for any length of time. The commission men who handle the goods for the shippers are concerned with their own profits and these profits are made on the

part of the shipment that they sell. They do not lose on what spoils and so they are often not as careful to prevent spoiling as they should be. Since there is no one present to look after the interests of the shipper much unnecessary spoiling takes place. Moreover, there are times when heavy shipments in excess of the market demands so lower the prices that it is frequently to the interest of the commission men to let a part of the shipments spoil and thus control the supply. In other words, they can make more money on a part of a shipment than they could if they dumped the entire shipments on the market for what they would bring and thus lower the price. It is evident that if the consuming public is to have its cost of living reduced and the farmers are to get a larger part of the consumer's dollar, there must be a reorganization of the entire scheme of distributing the farmer's produce in the great marketing centers.

The Spread of Prices

The spread of the price between the farmer and the consumer of his produce shows that farming is only a part of food production. When one read that the farmer gets \$2.25 a barrel for apples and the consumer pays at the rate of \$7.50 a barrel the first thought is that such a spread is too great to be justified. Of course if the farmer and the consumer were near enough together to deal directly with each other, the spread would not be so great. But between the farmer and the producer many

services intervened. The apples were sold in the orchard and had to be picked, barreled, labeled, carted, transported, stored, sorted etc., and the wholesaler and retailer had to make their profits. Much spoilage takes place and this loss makes the number of barrels that the consumers buy smaller than the number of barrels the farmer sells. The consumer of course has to pay for the spoilage.

In the case of Florida tomatoes sold in Boston in 1911 the consumer paid six times as much as the producer received. The shipper, the commission man and the retailer took their toll and packing, boxing, cartage and freight took the rest. The consumer paid for the tomatoes and for the services rendered in getting them to him.

A spread in the price is inevitable for all transactions that are not direct between producer and consumer, a small spread for several things, a greater spread for others. The only phase of the spread of prices open to discussion is whether or not the agencies responsible for the spread take too large a toll. The farmer's only chance of getting a larger part of the spread is either individually or by some form of co-operative marketing to perform as many as possible of the services that intervene between him and the consumer.

For a fuller account of spreads of prices similar to those of the apples and tomatoes mentioned above, see

Carver's Principles of Elementary Economics 1911, p. 330-333 where the spreads of prices for several farm products are analyzed showing the agencies responsible for the spreads and the share of each. The Reports of the Secretary of Agriculture for 1924, p. 44, and for 1925, p. 34 also contain analyses of such spreads.

In Report Number 408, House of Representatives, 67th Congress, 1st session, facing p. 17 is a table showing how, as the farmer's produce goes on its way to the final consumer, it requires a succession of services, and combines with other materials to form raw materials for some manufacturing operations, while labor, capital, credit, transportation, truckage, storage, insurance, advertising, merchandizing and selling each add something to the cost that the consumer pays. Between pages 68 and 69 and between pages 74 and 75 there are other tables and diagrams that show the various agencies that indirectly or directly touch products between producer and consumer. The whole Report is full of tables and diagrams that show the various per cents of the consumer's cost that goes to the producer, to operating expenses, and to profits. Part III of the same Report, p. 31-35, gives further accounts of such spreads. One has but to read this report to realize that marketing is a matter of great magnitude and complexity as well as of great importance to the welfare of all concerned.

The Farmer's Dollar

If the prices of all products or groups of products changed alike, the conditions of the industries so far as such conditions are reflected in price relations, would remain the same. The condition of agriculture is in part indicated by the relation that the prices of agricultural products bear to the prices of the products of other industries. This means that the value of farm crops is largely determined by how much of the products of other industries that farm crops will buy. According to Table A-1, p. 27 of Report Number 408, 67th Congress, 1st session, the farmer's dollar in April 1921 as compared with 1913 was worth 63 cents; at the corresponding month in 1920 it was worth 90 cents. According to Table A-5 of the same Report, p. 31, the purchasing power of the crops in May, 1920, ranged from 42 per cent to 117 per cent of the 1913 prices. Only two of the 31 items named in this table, buckwheat and poultry, are above the 1913 prices. These facts show that during periods of decline and depression agriculture is at a disadvantage with other industries.

Document Number 195, 67th Congress, 2d session, p. 21 shows that the farmer's average return for labor, risk and management, was as follows:

1913, \$444; 1914, \$459; 1915, \$95; 1916, \$586;
1917, \$903; 1918, \$1278; 1919, \$1466; 1920, \$465.

In terms of 1913 prices the average reward per farmer for labor, risk and management was in

1913, \$444; 1914 , \$454; 1915, \$484; 1916, \$534;
1917, \$705; 1918, \$826; 1919, \$833; 1920, \$219.

Now while the average reward per farmer for labor, risk and management in 1913 was \$444, the yearly earnings of those engaged in mining was \$755; of factory employees, \$705; of railroad employees, \$782; of banking employees, \$930; of Government employees, \$823. By 1918, as shown by the same Report on the same page, the average reward per farmer for labor, risk and management had risen, owing to the stimulus given to agriculture by the War, to \$1278, while that of mining employees had risen to \$1280, that of factory employees to \$1147, that of railway employees to \$1394, that of banking employees to \$1461, that of Government employees to \$895. (sic!!) Between 1913 and 1918 the reward of the farmer had increased relatively with the increases of the employees in other industries except the employees in factories. The figures for 1919, 1920, and 1921, says the Report, are not available (1922), but it is probable that the rewards of those employed in industries other than agriculture have slightly increased in purchasing power in 1921 over 1918, the rewards of those engaged in agriculture have diminished by 73 per cent. Owing to the lower prices of his produce the farmer's dollar is harder to get and when it is obtained it buys realatively less than the dollars of other

industries. A concrete case will show better the altered purchasing power of farm crops.

The Joint Committee on Agricultural Inquiry in Document Number 195, above cited, p. 22, gives the results of a study of the cost of four typical farm implements, namely, a gang-plow, a wagon, a harvester, and a corn-binder, at Goodland, Kansas. These implements, including freight, cost at Goodland in 1913, \$490.50; in 1920, \$944; in 1921, \$761. The amount of corn necessary to buy the implements in Goodland in 1913 was 928 bushels; in 1920 it was 706 bushels; in 1921 it was 4142 bushels. The number of bushels of corn required to make the purchase is found by subtracting from the Chicago price of corn per bushel the freight rate per bushel from Goodland to Chicago, and dividing this remainder into the cost of the implements. Extended comment on the significance of these figures is not necessary. They speak for themselves.

Agriculture and Unbalanced Industry

The average farmer of today understands the principles of balanced rations for his cattle and balanced fertilizers for his soil. The principles are susceptible of experimental proof and so are accepted as matters of fact, especially within the limits of farm experience. In much the same way and within similar limits the principle of balancing the agents of production on the farm

is accepted even though the far-reaching implications of the principle are not understood or realized. Just as it is necessary to balance rations and fertilizers it is necessary to balance agriculture and the other productive industries of the nation. If permanent and effectual relief for the farmer is to be obtained it must be obtained by an adjustment of the major industries with each other in accordance with the principles of balance, definite proportions and the law of supply and demand.

The use of labor-saving machinery on the farm is the equivalent of an increase in the farming population. By its aid the farmers have been able to produce more food with less help than formerly and the surplus help has gone to the cities. A writer in The Country Gentleman for September 29, 1923, says that in spite of the relative decrease in the farm population the farmers in 1920 produced enough food to supply the country's needs and yet exported 323 millions of bushels of our five major grains. Between 1900 and 1920 the population of the United States increased about forty per cent while the farming population increased but four per cent, but the value of machinery used on farms increased four hundred per cent. During the Great War when the country was short of men the farmers fed the country and a large part of Europe besides. It is evident that there is no immediate need of a back-to-the-farm movement so far as production is concerned. It is often claimed that the relative decrease of our rural population and the

relative increase of our urban population is a regrettable national tendency. But as far as the farmer is concerned the greater the city-ward drift of population and the less of the back-to-the-farm movement there is the better it is for him for it means an increased city population to be fed with less competition in food production. It means a better balancing of the farming population with other industries. There are more farmers now than are necessary to feed the country and this surplus of farmers is one factor in their lack of prosperity. Babson the statistician a few years ago mentioned that the many conferences called to solve the problems of agriculture never pointed out the "real cause of the farmer's lack of prosperity - ten per cent too many farmers". Yet in spite of the surplus of farms, farmers and food, the Federal Government has pushed irrigation and drainage projects in regions remote from markets. Instead of aiding agriculture as an industry such projects had aggravated the farmer's problems. Waste land, whether arid or swamp, should be let alone till there is a sufficient market for the products of the land now under cultivation.

The present unbalanced condition of agriculture with other industries is the result of forces that have been in operation for a long time. Prior to 1860 agriculture developed normally. The addition of more acres to those already under the plow was slow and steady as the westward moving frontier line cleared away the primeval forest. The

country as a whole was prosperous. Manufacturing and commerce were growing and furnished a market for the produce of farms. By 1860 the farm-frontier had reached the fertile prairies of Illinois and had obtained a foothold in the trans-Mississippi region where there were no forests to be cleared away before the land was ready for the plow. The astonished farmer of the east saw created in a day farms of greater productive power than those that had required a generation of toil to create under the conditions that he had previously known. The farmer of the east soon saw that he was arrayed in an unequal contest with an agriculture of broad and fertile prairies that could be bought at small cost and made ready for farming with comparatively little capital. As soon as railroads could be built to afford an outlet for the region it could be made a granary of the world. England had conveniently repealed her corn-laws and thus had aided in furnishing a market for the grain of the region and helped along the marvellous development of the United States that has dazed financiers and economists alike.

By 1870 the combined productive agencies of the trans-Mississippi region began to be felt. From 1870 to 1890 the volume of food staples produced in the region grew amazingly, and by 1900 had become greater than the entire amount produced in the country's whole existence down to

1870. The previously well-adjusted industries of the country were disturbed and have ever since been out of balance. So great was the bounty of the trans-Mississippi region that the producers of the region became sufferers from the very abundance they had produced. The supply of food was outrunning the world's capacity to absorb. The farmers are now paying the penalty of too great an expansion of their industry relatively to the other industries of the country. The process of adjusting supply to demand by curtailing production or waiting till city populations increase sufficiently to balance demand against supply is a long and tedious, and even painful, process; moreover, we are an impatient people, impatient of delay and impatient of pain. Agriculture is now the victim of the Government's policy of alienating the public domain as fast as possible regardless of whether the land was needed for agricultural purposes or not. We now have more farms, more farm-acreage and more farmers than the country needs. The present unbalanced condition of agriculture is the result of perfectly natural causes, the inevitable result of a too liberal land policy born of good intentions but destined nevertheless to work harm to the industry it was designed to help.

Other Suggestions For Farm Relief

In considering the predicament of the farmer several suggestions of various degrees of value have been made. Some of these deserve consideration if we are to appreciate the difficulties of a satisfactory solution of the problems connected with farm relief.

It has been suggested that in the case of wheat a curtailment of supply by reducing the acreage of the crop till our export trade is restored to its normal status would keep up the price of wheat on the domestic market thus aiding the wheat-farmer regardless of its effect upon the wheat-consumer. The moment the price of wheat rises the producer will be tempted to increase his acreage of this important cash-crop in spite of a concerted agreement to reduce the acreage. This plan does not seem feasible, therefore, especially since the wheat land is not well adapted to other crops and the farmer can not let his land lie idle. Moreover, a reduction of acreage is not a sure way to reduce the size of the crop. According to the Year Book of the Department of Agriculture for 1924, p. 560, Table I, there were 9,487,000 fewer acres of wheat harvested in 1924 than in 1921 and yet there were 57,768,000 more bushels of wheat produced in 1924 than in 1921. On p. 601, in Table 58 of the same book we find that 1924 there were 3,313,000 fewer acres of corn than in 1920 and yet there were produced 772,071,000 more bushels of corn than in 1920. It is evident, therefore, that control of acreage can not control production.

But even if control of acreage could control production, the amount of the reduction and the method of determining the reduction would raise a spirited discussion to say the least. It has been suggested that the wheat-acreage should be reduced to its pre-war status. On p. 601 of the Year Book just cited we find that the average acreage of wheat in the country for the years 1909-1913 was 47,097,000 acres; for the years 1914-1920 it was 58,205,000 acres; for the years 1921-1923 it was 61,890,000 acres. It appears from these figures that a reduction of acreage by about 25 per cent would be necessary to bring the acreage of wheat to its pre-war basis. How to reduce it to that basis and keep it there in spite of rising prices are knotty questions to answer.

The Crisis in The 1926 Cotton Crop

The following statistics are taken from the Year Books of the Department of Agriculture for 1924, p. 746, Table 298, and of 1925, p. 952, Table 321. and show the tendency toward the over-production of cotton that brought about a crisis in the cotton belt in 1926 in spite of a tacit understanding among the planters in 1925 to reduce the cotton acreage in 1926. Most of the planters seem to have reasoned that since everybody was to reduce that the crop would bring a better price and if they planted a few acres more they would have more to sell at a better price. The statistics tell the story.

Year	Acreage	Bales	Price
1920	35,878,000	13,439,603	13.9¢
1921	30,509,000	7,953,641	16.2
1922	33,036,000	9,762,069	23.8
1923	37,123,000	10,139,671	31.0
1924	41,360,000	13,153,000	22.6
1925	46,053,000	15,603,000	18.2
1926	50,000,000	17,454,000	13.4

(Note.- The figures for 1926 are taken from The Independent for November 6, 1926.)

Can Acreage of Crops Be Controlled by Law?

The crisis in the cotton belt in 1926 may lead to an attempt to control cotton acreage by law. At least there is considerable agitation in the South for such a procedure. In October 1926 representatives of fifteen cotton growing states met in Memphis and seriously discussed the limitation of cotton acreage by law since limitation by voluntary agreement was a failure and the crisis seemed to demand drastic action. Under a gentleman's agreement many farmers had in good faith reduced their acreage only to find that others had increased theirs so that the yield was increased instead of diminished. North and South Carolina, Georgia, Alabama and Tennessee all diminished their acreage while Texas increased her acreage over 60 per cent. Had Texas fallen into line with the others in reducing her acreage the smaller crop would have brought a larger cash income.

Many of the delegates thought the time ripe for heroic measures and proposed to limit the cotton acreage by statute. Had the vote of the conference been taken in proportion to the amount of cotton produced by the states instead of by states, the proponents of the drastic measure would have carried the day. The gist of the proposed plan was to call the legislatures of the cotton states in extraordinary session and have them pass identical legislation forbidding any farmer to plant more than 50 per cent of his crop land in any single crop, not mentioning cotton by name however.

Some of the delegates thought their states could accomplish this result by means of a privilege tax while others would trust the police powers of the states to furnish the necessary sanction. In the case of *Noble Bank vs. Haskell*, the Supreme Court of the United States through Justice Oliver Wendell Holmes handed down a decision in October, 1911, in which the police power is defined as follows:

The police power extends to all the great public needs. It may be put forth in aid of what is sanctioned by usage; or held by the prevailing morality, or strong and preponderant opinion to be greatly and immediately necessary to the public welfare.

This description of the scope of the police power is clear enough to govern the legislatures of the cotton states in promoting the public welfare by the reduction of cotton acreage by law. It is interesting to note that while the grain-growers of the Middle West

are appealing to the Federal Congress for an export corporation to deal with their surplus, the cotton growers of the South are proposing to solve the problem of their surplus by state legislation.

Co-operation

Among the many suggestions for improving the economic status of the farmer and freeing him from paying too large a tribute to the middlemen and enabling him to hold his crops till they can be sold more advantageously is that of Co-operation. Whether the farmer is yet ready to co-operate with his class in such marketing on a sufficiently large scale to handle his crops of wheat, corn, and live-stock is a debatable question. Co-operative marketing would doubtless help the farmer in many ways but it is no panacea for his troubles and can work no miracles in his behalf. It can not solve the problem of the high costs of production in the United States when compared with the costs of production of the American farmers competitors abroad.

The farmer needs a new conception of co-operation. Instead of thinking of it as a mere selling agency he needs to view it as a business organization adapted to agriculture as a business. The chief aim of co-operation should be to co-ordinate and adjust the entire business so as to secure a well regulated balance between production and demand and thus avoid periods of over-production with glutted markets and low prices on one

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hand and under-production with unsatisfactory prices for consumers on the other. Co-operation should be the economic expression of the group life of the farmer developed in response to recognized needs as experience unfolds. The best form of such organizations will be a farmer-owned and farmer-controlled association fostered at first by legislation and governmental aid, perhaps, and then left to itself to work out its own salvation. Since the farmer is an individualist it will require a considerable period of education to accustom him to the necessity of submerging his own selfish ways of thinking in in the larger interests of the group to which he belongs.

The problem of co-operation is not a small or a simple one. There are 6,500,000 farmers in the country who produce all sorts of commodities - wheat, corn, cotton, vegetables, fruits, wool, potatoes, etc. The marketing problems vary with the commodity, with the region in which the commodities are produced, distance from markets, the extent of competition in the markets, the bounty of nature and the hold-over from the previous year. Any system of marketing adequate to the needs of the producers of any of these and similar commodities would have to be conducted on an extensive scale and would require ample funds to finance it, competent experts to direct it, and sound and accurate market information to guide it.

Co-ordination of Co-operative Units Needed

A large number of co-operative associations acting independently will not accomplish very much. Their prime need is to build up bargaining power and bargaining power is not an attribute of the small, independent association. A wheat co-operative association with a central sales agency controlling from 100 to 200 millions of bushels of wheat might do much to stabilize the price of wheat. There are about 4000 farmer's elevators in the country, but as they are not federated and do not pursue any common policy they have scarcely more bargaining power than individuals would have. If these elevators were federated, they might be able to prevent the disastrous ups and downs of prices.

Then, too, the danger of failure is greater than in the larger associations with the wider affiliations. The smaller associations can not do business on a scale sufficiently large to effect the economies that make for profit in such enterprises. Since the dangers of failure are greater in the smaller co-operative units, and since they do not make for economies in operation, they should be co-ordinated through some larger central agency. Of the 1100 co-operative associations that have failed since 1913, the larger part have failed, according to the Report of the Secretary of Agriculture for 1926, p. 12, because of insufficient business rather than because of poor management which is the reason usually

given. Experience seems to indicate that there must be co-operation of the co-operative associations if the greatest good is to come from the movement. It is evident that co-operative marketing of any commodity on a scale that will benefit agriculture in general is far from being a simple proposition, and that it can not be organized on a sound basis soon enough to do much service in getting agriculture out of the depression in which it now is. It may be able to do good service in preventing, or at least in slowing up, other depressions that are likely to follow the present one. Agriculture has recovered from other depressions without the aid of any form of co-operation, and, given time, will do so again. Lack of co-operation is not the cause of the present depression and the fundamental cures must be sought in other directions.

Price Fixing

It has been suggested, also, that the prices of commodities be fixed by governmental agencies as was done during the Great War. But the patriotism of war times did not prevent some people from disregarding such prices when their own self-interest was promoted by such disregard. The price-fixing that has been suggested as a measure for farm relief is made, however, not in the interest of the public welfare, but in the interest of agriculture. Since consumers outnumber the farmers two to one, it is not likely that price-fixing that increases the cost of living of

two-thirds of the population in order to benefit the other third will be permitted to go unchallenged.

Price-fixing, no matter what the exigency that leads to it, is no easy task. Even if prices are fixed the problem of maintaining them will be difficult. If the idea is to keep agricultural prices in some degree of harmony with the prices of other commodities, the problem will be still more difficult. Changes in domestic and foreign demand, insect and weather conditions, and the bounty or niggardliness of nature, are sure to have their effect upon prices. To succeed in fixing and maintaining prices of any commodity the commodity should be subject to some form of unified monopolistic control. Since agriculture is the most highly competitive of industries such a monopolistic control is manifestly impossible.

Some time ago when agricultural prices were lower than at present much was said about securing fair and reasonable prices that were in harmony with the prices of the products of other industries. Probably what was intended was to have the purchasing power of the farmer's dollar as nearly equal as possible to the purchasing power of the dollar of other industries. It was proposed to take a time when agriculture was in a fairly prosperous condition as the norm or standard and stabilize prices so as to maintain that status quo. What was to be done if the economic forces of supply and demand if uninterfered with

after prices were fixed should happen to increase the prices of agricultural products above the level that prevailed during the period that was selected as the norm does not seem to have had a thought. Probably in such a contingency the prices during the period selected as the norm would be regarded as the minimum price of agricultural products.

Now that prices of agricultural products have risen into closer harmony with the prices of other commodities, the proponents of price-fixing are shifting the ground of their contention to an insistence that the farmer ought to have a fair return upon the capital invested which means a fair profit above the costs of production. But a fair return upon the capital invested would call for a fair estimate of the value of the farmer's land. What part of the assumed valuation of the farm shall be taken as the invested capital is another matter. It is difficult enough to determine such valuation in the case of public utilities and it would be far more difficult in the case of a farm owing to the double function of the farm as a home and as a production plant.

The value of a farm depends in considerable measure upon the profitableness of the enterprises conducted upon it, and this in turn depends upon the prices of the produce obtained from it. The control of the prices of agricultural products will determine land values. As a conse-

quence of the War, land values have been immensely increased, agriculture has become over-capitalized, and the significance of the present agitation for price-fixing lies in the artificial valorization of over-inflated land values that such control would cause. The far-reaching effects of such a course upon non-agricultural interests should not be overlooked. The farmer might be benefited temporarily, perhaps permanently, but while a basis industry, agriculture is not the only interest to be considered by economic statesmen. So price-fixing is not to be entered upon without serious deliberation.

Encourage The Immigration of Labor

There are some advocates of the immigration of labor as a means of reducing farm and factory wages so as to reduce the farmer's cost of production of what he has to sell as well as the costs of what he has to buy. But an increase of farm labor at a time when we are already producing a surplus for export is about the last thing the farmer needs. The immigration of such labor might, and probably would, lower factory wages because of an increased supply of labor, and this would in turn lower the factory employees' capacity to purchase food supplies and this in turn again would injure the farmer. For the present at any rate we may set aside this suggestion as being politically impossible, economically undesirable, and as seriously discounting the judgment of those who propose it.

Lower The Tariff

Opinions regarding the relation of the tariff to the prosperity of the American farmer vary widely from the belief on one hand that the tariff is a bunco game with the farmer as the victim, that it is the greatest hoax ever perpetrated upon the farmer, that the farmer pays more in higher prices for what he buys than he gains from the tariff on what he has to sell, that the farmer's prosperity would be greatly increased by a "sizable reduction" in the tariff, to a belief on the other hand that the tariff is a great and almost divine blessing to the farmer, that is a great and growing benefit to agriculture and that it ought to be let alone.

The American Farm Bureau Federation in its Weekly News Letter for January 11, 1923 claims that the American farmer pays yearly \$426,000,000 in higher prices on what he buys for \$125,000,000 of protection on what he sells. Secretary of Agriculture Jardine in his Report for 1926, p. 26, warns against the fallacious assumptions that underlie methods of reckoning by which these figures are obtained. He is a warm supporter of the idea that the tariff is a benefit to the American farmer and claims that the need for protection to the farmer is growing. He calls attention to the fact that in 1901 our agricultural exports constituted 65.2 per cent of our total exports, but in 1913 the proportion had dropped to 43.6 per cent, during the War it rose to 50.6 per cent in 1919,

and for the year ending June 30, 1926, it was only 40.6 per cent. While agriculture is becoming less dependent on export sales, industry is becoming more so. We are now exporting 10 per cent of our manufacturing and mining output and the proportion is increasing, while agriculture is exporting 13 per cent of its products and the proportion is decreasing. If Secretary Jardine is correct in his opinions and interpretations, the past attitudes of agriculture and industry towards the tariff are very likely to be reversed and the present agitation for lowering the tariff in the farmer's behalf is not based on sound premises. However, Professor Allyn A. Young of the Department of Economics of Harvard University, who was the Chief of the Division of Economics and Statistics of the American Commission to Negotiate Peace, 1918-19, a member of the American Delegation to the League of Nations Economic Conference last spring, says in a letter to the writer that, in his opinion, Secretary Jardine is all wrong in his analysis of the situation and that he thinks nine out of every ten competent economists will say the same thing, and favors a sizable reduction of the tariff in the interest of the farmer.

Like most economists Professor Young believes in the territorial division of labor, with the freest possible trade between countries. He believes that a lowering of the tariff would stimulate international trade and that

the farmer would profit greatly by such trade. The general effect of a lowering of the tariff would be to decrease the price of imports and to increase the price of exports. The really important thing is that a tariff reduces our ability to buy foreign goods and in just that measure reduces the ability of other countries to buy from us.

Agriculture is not an entity but a very complex institution, and what benefits one part of it may not benefit the rest, The tariff undoubtedly benefits some farmers and does not benefit others directly. The advantages and disadvantages of the tariff to agriculture in general or to particular phases of it in different sections have never been determined and balanced. The incidence of the tariff and its discriminations can be determined only by an expert investigation of tariff schedules and commodity prices and such an investigation has never been made. It is important to know whether the tariff is discriminatory against the farmer and to what extent. But the fact and extent of such discrimination can not be determined by considering the effects of the tariff upon a few commodities only.

To single out any particular commodity that the farmer buys or sells and determine what part of the joint cost is due to the tariff, to freight rates or to wages would

be an extremely difficult if not an impossible task. To ask that any of these elements of the joint cost be reduced except in the interest of the general welfare would be the height of selfishness. If, on the other hand, it can be shown that the reduction of any or of all of them would promote the general welfare, they should be reduced. It is time that ignorance, prejudice and selfish interest should be less in evidence in tariff discussions and in legislation and knowledge more in evidence. To legislate in the dark when it should be done in the light, and in the clearest light at that, does not become the intelligence of a twentieth century civilization.

Suggestions For Farm Relief Made By Various Committees

The Agricultural Conference held in Washington in 1922 appointed several Committees and Sub-committees to investigate various phases of the farm relief problem several of the suggestions made by these committees are worth profound consideration. One Committee advised that the tariff be studied in relation to agricultural products and rates of exchange with foreign countries which are, in effect, subsidies on goods exported to the United States. Other committees strongly urged the reduction of transportation costs as means of relief, even urging that railway wages be reduced as a means to this end.

Some of the committees did not mention railroads but urged the reduction of wages that increase the cost of distribution. This may have been aimed at the high labor element of cost in handling shipments in the distributing centers as well as at railway wages.

Another committee committee urged the collection of statistics of the right sort by permanent expert statisticians, analyzed, correlated and interpreted so as to be easily understood and used in business and in legislation. If this could be done, it would be a great step forward, but so many investigating committees are too short-lived and lack sufficient financial support to enable them to do what this committee sees very clearly ought to be done.

Another committee suggested that Congress follow up the recommendations of the various committees so that the recommendations should not be made in vain. This committee placed a finger upon a sore spot in our multitudinous investigations and reports; they are made, filed, and forgotten. If the time, energy and money that are spent upon so many investigations could be centered upon a smaller number that are really vital so as to do the work thoroughly and reach definite conclusions upon which action could be based and still have some time, energy and money left for a campaign of education in behalf of the action the findings justify, we might get along much faster.

We have discussed the general problems of farm relief not with the intention of pointing out specific things that must be done to solve them but with the intention of scouting the field to see what the problems of relief are and what they involve, and the direction that investigations looking to action must take. One inevitable conclusion is that the problems are much more complex and difficult to solve than most people realize. Few of the problems are understood even as problems saying nothing of their solutions. They vary with the sections, crops, markets, transportation facilities, and the like, and will require a much longer time to solve adequately than many think desirable.

There seems to be a tacit assumption that it is possible to adjust the prices of what the farmer has to sell to the prices of what he has to buy in such a way as to bring prosperity to all farmers alike despite the fact that agriculture as a whole may be prosperous while individual farmers may be far from it. If prices are high enough on the average, one year with another, to make a good living for the better 50 per cent of the farmers, it is about all that can reasonably be expected. No industry is so prosperous as to be able to take care of the poorer 50 per cent of the people engaged in it. There are more people engaged in producing food than are necessary to supply the demand for it and this fact makes agriculture

as a whole less prosperous than it otherwise would be.

Many of these people have no business to try to be farmers for they are the traditional round men in square holes. They are misfits as farmers and this fact makes them as individuals less prosperous than they otherwise might be. They are poor managers, poor business men, poor salesmen, inefficient and thriftless. If wheat were five dollars a bushel, they would produce it at a loss. No amount of government aid would make them prosperous.

Genuine help for the farmer must begin at home. More and more farming is becoming a business and training for both farming and business is essential to a farmer's success. First of all, the farmer needs to be grounded in farm economics for use in his dual role of farmer and business man. This subject will teach him, if any thing can, how to reduce the costs of production and so secure a larger return for his labor. It will teach him that greater economies in production are to be found, within limits, by producing on a larger scale. The average farmer is operating on too small a scale, with too small an equipment of capital and labor, to secure even a large gross income saying nothing of a large net income, and consequently can not make a good living. His greatest help will come from reducing the costs of production and the better use of business principles in marketing his produce. The sooner the farmer recognizes that export dumping corporations, credit

extensions and price-fixings are not going to help him so much or so permanently as some homelier and more prosaic measures will, the better it will be for him and the sooner he will turn his attention to the sources of his greatest ultimate help.

Agriculture is slowly emerging from the depression that followed the Great War. Along with other industries agriculture passes through periods of prosperity and of depression; it has its ups and downs. It is true, and the pity is that it is true, agriculture does not recover from depressions as quickly as industry does. This inability to recover quickly is inherent in the business itself. Agriculture was gaining a favorable status when compared with industry when the Great War interrupted the adjustment and is slowly returning to that favorable condition. Unless unforeseen complications arise, agriculture will in the course of a few years reach the stage of prosperity. It is cold comfort, however, for a sick man to be told that if he will be patient and take care of himself, he will be better in a few years. What he wants is relief from his misery right now, and, since his physicians will not promise immediate help, he is willing to listen, and too often does listen, to medical quacks and humbugs who promise him relief sooner than the safe and sane practitioner dares to promise it. The farmer is much like the sick man. He too is in distress and wants immediate relief. The economist

is dubious about promising him relief by unsound methods and the farmer like the sick man turns to quacks among political medicine men who promise him relief regardless of whether the relief they promise is good for him in the long run. The result is that the farmer wanders off after strange gods under the guidance of demagogues and loses valuable time that ought to be spent under wiser guidance in permanent constructive efforts to cure and not to palliate his ills.

One thing greatly to be desired is an Agricultural Policy in keeping with the importance of agriculture in our economic life. Until it is recognized that agriculture is an essential and coordinate part of an indivisible economic life neither agriculture as a separate industry nor the nation as a whole can have the greatest possible prosperity. Industry has been favored by Tariff legislation since the beginning of our national existence. Labor has also been favored by more recent legislation and has in addition unionized its strength, not for the general welfare, but for its own ends. Agriculture has been neglected and cajoled into believing that the Tariff is one of its greatest blessings and left to struggle without the artificial helps that have been given to other industries. The time is fully ripe for a change in the political and economic philosophy that has hitherto guided our statesmen. It is time for a look forward beyond 1950 or even 1975 to the ideal and ultimate relations that should

prevail between the separate industries of the country, and then, and not till then, can agriculture take its place as an equal partner in the welfare of the nation.

It is to be noted in all the present talk about farm relief that that it is concerned mainly with the present and with agriculture. Little is said about the future or about the restraints and adjustments of the other interests that may be necessary to be done before farm relief can be accomplished. A constructive, forward-looking agricultural policy will have to be a part of a constructive, forward-looking economic programme. It is futile to expect that agriculture can be restored to a prosperous condition and maintained in that condition simply by working on agriculture alone. It may be futile to expect that the other interests will willingly submit to the necessary adjustments in order to give agriculture an equal chance with them for prosperity. It may be necessary for agriculture to fight selfishly for her own interests as the other interests fight for theirs till there is an awakening to the fact that the welfare of each interest in our economic life is inextricably bound up with the welfare of all.

In the meantime while waiting for this economic millennium to dawn it is necessary to take up the needs of agriculture for a constructive policy of its own. Such a policy may well be typical of what an economic policy

for the nation should be. The essential and central feature of this policy should be to provide ample provisions for a thorough-going, scientific study in the fields of production, marketing, utilization and the coordination of the industries of the country in such a way that agriculture shall secure recognition of its basic importance in our national life. There should be a reason for every investigation and that reason should be to secure information upon which to base predetermined but intelligent action. Legislative action based upon scientific research would prevent the further reclamation of arid and swamp lands till the present lands under the plow are unable to furnish the necessary supplies of food to meet the demand. The designs of ambitious politicians, the dreams of engineers with axes to grind, the schemes of empire-builders, would all be placed in due subordination to the welfare of the nation. Transportation would be studied scientifically in order to determine its needs and services in the light of the public welfare. The relation of transportation to agriculture is constantly becoming more intimate and important and requires intelligent legislation to promote the interests of both as well as the best interests of all. It is time for a constructive economic policy to stop the struggles of industry and labor for selfish advantages regardless of the welfare of the country at large .

In carrying out the sort of policy for which we are contending competent commissions, with the emphasis upon the word 'competent', and as impartial as the Supreme Court, should give constant attention to the effects of the tariff upon any crop or section or industry, The tariff ought to be taken, once and for all, out of politics and placed on a hard-headed business basis in the hands of a Board to find the facts upon which legislation might be intelligently based. The Tariff Board, like the other necessary Boards or Committees necessary to carry on the research precedent to legislation should be amply financed over a length of time sufficient to arrive at definite conclusions and, when the conclusions are reached, they should be acted upon. An economic policy should be a policy of action and not merely one of investigations and reports. The investigations and reports are necessary to guide action not only in legislation but in the field of business, and action in either legislation or business should not be taken except as expert and impartial information points the way. This is, of course, a higher ideal of statesmanship than that which has hitherto guided our public officials and it will require a higher degree of concern for the general welfare than the average public official possesses as yet to initiate and administer such a comprehensive policy. Are we equal to the solution of the problems that we have created?

It may be objected that such a policy as has been suggested smacks too much of a paternalistic or socialistic regime, and so is alien to the American type of thinking. But economic philosophies are the outgrowths of the economic conditions and vary with the conditions. There was a time when the Mercantile Theory of Trade was sound doctrine, but not for long. It was succeeded by the Manchester School of economic thinkers with their slogan of *laissez faire*. Changed circumstances produced the change in doctrine. The Manchester Doctrine of "hands off" was an expression of an exuberant, youthful, exploring and acquisitive spirit bent upon giving distant parts of the globe a chance to show what they had to contribute to the expanding economic life of the world. It is unfortunate, however, that the expediences of English economic life at such a time should be canonized as almost immutable laws for the guidance of economic life long after the time when "hands off" promoted a harmonious development of all of the factors of national well-being.

Since the days when the Manchester Doctrine was born governments have been undergoing transformations and are now quite frankly regulative and directive in their functions. Governments are no longer the means by which a class tries to secure and maintain the supremacy over other classes, but are the purposive and directive agencies by which peoples seek to direct and safeguard their

destiny. Constructive programmes embracing all phases of national life are the only safe programmes for nations to follow. A high type of society, well-balanced and progressive, with every group, section, class, industry and resource brought into due subordination to the best interests of all, should be the conscious goal towards which the purposive intelligence of the nation should strive.

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APPENDIX

The following statistics show the ratio of the assessed valuation of properties in Fort Collins to the valuations placed upon these properties by their owners when listed for sale with realtors:

Table I

The Price Asked	The Assessed Valuation	Per Cent
4100	1300	32
2850	900	32
7000	4200	60
3750	1850	50
3900	2340	60
2500	900	36
6500	3600	55
5000	2000	40
4000	1680	42
7500	4200	56
3500	1080	31
2800	1390	50
3100	1500	50
4800	1930	40
3700	1250	34
3300	990	30
2400	750	31
6500	3300	51
7000	2750	40
2900	900	31

The assessor made an honest effort to assess these properties at 60 per cent of what he considered a fair market value. The discrepancies are due either to his placing the market value too low or to the owners placing it too high, perhaps to both. A scientific method of assessment would have prevented marked variations from the 60 per cent.

The following statistics show the ratio of the assessed valuation of properties in Fort Collins to the actual sales prices as reported by realtors:

Table II

The Sales Price	The Assessed Valuation	Per cent
4000	1300	32
3250	1200	37
4150	1300	31
4300	2100	49
4000	1800	45
2850	900	31
3100	1300	42
2900	850	29
3600	1350	38
5500	2250	41
7500	3000	40
4500	3000	67
3000	1800	60
3800	1550	41
3000	1810	60
5000	2260	45
3250	1210	37
4000	1250	31
5200	2200	42
7100	3740	53
3550	1600	45
4000	1650	41
3050	1750	57
3800	1850	49
3700	1880	51
3350	2010	60

This is a partial list of the properties investigated, but none in the complete list showed variations not included in this list; in no case was the assessed valuation less than 31 per cent of the sales price nor more than 67 per cent.

The following statistics show the ratio of the assessed valuations of new buildings in Fort Collins to the cost of building as given in the building permits:

Table III

Building Permit	Assessed Valuation	Per cent
5500	3200	45
8000	5650	63
7000	5600	80
16000	8500	53
7000	3500	50
3500	2000	57
3800	2500	68
5500	2500	46
5000	2000	40
2600	1600	60
4500	2750	61
10000	8000	80
7000	5000	71
4500	2000	44
6000	4000	67
3300	1650	50
5000	3520	70
3800	3000	80
5000	2750	55
5000	2200	44
10000	7500	75
3000	1300	43
5000	2500	50
8000	6750	80
5000	3500	70
4000	2000	50
8000	9350	117
4500	3850	85
4000	3100	77
4000	1500	38
4000	1760	44
5000	2500	50
7500	5000	67
4000	3300	83

The range of variations in Table III is from 38 per cent to 117 per cent, a rather striking range for new buildings. It must be kept in mind, however, that if a man builds a house to live in as a home, he is quite likely to underestimate the cost when he begins, and may, perhaps, have in mind keeping the assessment down. On the other hand, many houses in this Table were built to sell and the builder doubtless placed the permit cost a trifle (?) high in order to affect the sales price.

The house assessed at 117 per cent of the building permit cost was built for a home and the inside work is expensive. The finish and the conveniences, probably, were determined after the building was begun, and increased the cost over that estimated when the house was started.

The range in per cents of assessment shows clearly the need of a different scheme of assessment than that now in vogue. It constitutes a strong argument for a scheme of scientific assessment.

Items of Assessment

Property	Lot	Building	Total
State Mercantile	\$38,000	36,100	74,400
Wolfer and Damm's	36,400	20,800	57,200
Watson and Candy Nook	9,280	2,100	11,380
Physician's Building	18,020	11,000	39,020
C. C. Stone	9,100	2,600	11,700
Hibbs, Piggly Wiggly	18,200	8,670	26,870
Miller's Book Store	9,100	2,000	11,100
Poudre Valley Nat. B.	11,000	24,200	35,200
First National B.	10,000	44,000	54,000
Brownie's Sport Shop	6,400	6,380	12,780
Evans and Abstract Co.	13,300	3,320	16,620
Meat Market, Stock Ex.	13,300	3,570	18,070
Meyers	13,300	13,770	27,070
Alpert	6,650	9,000	15,650
Bradley	6,650	8,250	14,900
Community Market	15,120	11,000	26,120
Jones Dry Goods	11,550	13,200	24,750

The State Mercantile Building, assessed at \$74,400, was sold about two years ago for \$134,000. This makes the assessed value 55 per cent of the sales price. The sale was made at top price and probably would not command such a price now(1926).