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NATIONAL AND LOCAL TAXATION IN RURAL AREAS

Farm

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THE national government of the United States levies no direct tax on property. Its greatest source of normal revenue is the tax on income, a levy which reaches individuals and corporations coming within its reach, according to law, wherever located. Thus the rural dweller pays a federal income-tax if and when he has a $4,000 net income. This is seldom indeed. The country dweller may pay a federal inheritance tax, but it is the exception. Indirect taxes strike all and sundry without reference to residence, and the farmers pay such taxes as part of the price of most goods purchased.

Since the main taxes paid by farmers are direct and local we will notice those first. To begin with it is widely, perhaps generally, recognized that farmers' taxes are unfortunately, even unfairly, high. The explanation of this is not the result of any immediate, or intentional, abuse. It must be sought in the unplanned development of institutions which were brought over from Europe by the pioneer settlers, and which underwent transformations, slow and for the most part natural. These economic forces began to go wrong many years ago, but did no serious damage until within this century, and became a matter of widespread concern only since the World War. Before the War farm taxes as such had attracted little attention. In proportion to income they were probably out of line with urban taxes to about as great an extent as at present. On this point there is little available information.[1] However, they were not heavy enough to cause great distress. Now they not only cause distress and disaster, but they are out of harmony with other taxes paid from the standpoint of the ability of farmers and non-farmers respectively to pay.

When the country was new, when our cities were mere hamlets, when the farming communities were isolated settlements scattered through a wilderness—when these conditions prevailed, it was inevitable that each community should stand on its own feet in every particular that could be regarded as local. Thus each little settlement

[1] *Tax Burdens compared.* B. H. Hibbard and B. W. Allin. *Wisconsin Experiment Station Bulletin.* See pp. 17 to 19.

provided itself with schools, with roads, and, at first under compulsion, with a church. As the years have passed, the main responsibility for supporting the two great civic institutions, schools and roads, has remained with the small community. These two institutions have, through the years, absorbed about two-thirds of all state and local revenue. The basis of collection and administration remained persistently small. The most typical school district, from the beginning until into the twentieth century, was a block of land, good or poor, about two miles square. Within this district lived some ten to twenty families. This small group of people out of meagre incomes supported a school. The various colonial and state governments usually donated some land to be used toward the support of education, but so far as the common, elementary schools were concerned such support was small. Neither did the people of the district put much money into schools or roads for many years. For years the schoolhouses were made of logs, cut and put into place by the people interested in the enterprise. The teachers were the products of the schools and were paid, in addition to board and room, some \$5 to \$10 per month. Thus less than a hundred dollars per year sufficed for supporting a school for a year.

Road districts were usually small, often coincident with the school district, sometimes, but with the same effect, a township in extent. The people did the work of road construction themselves. Until within less than a quarter century the great majority of American roads consisted of a grade made of earth scraped up immediately from the sides of the right-of-way. These roads were poor and at times impassable. We no doubt had many as bad as those in England a hundred and fifty years ago which were characterized by Arthur Young as 'execrably vile'.

Then came changes of a profound nature which for a long time were for the most part unnoticed. The city population outgrew the country population. Even more important, the wealth and incomes of the city entirely out-distanced the country. Still more significant than either of these developments, it became evident that incomes were no longer, assuming that they had previously been, dependent upon, and proportional to, property.

It must be remembered that we were wholly, and perhaps hopelessly, committed to the general property tax. This tax goes back in its origin some hundreds of years. It began as a land tax. Later, attempts were made to include all property, but after the rise of the industrial revolution and the transformation of property from its earlier simplicity into many forms, tangible and intangible; public, quasi-public, corporate, and private; durable and evanescent; owned in fee simple or possessed subject to an equal volume of debt;—in spite of all these changes, we have clung to the age-old doctrine that a man's ability to contribute to the support of his government is best measured by his possessions.

In the first place we call the system of taxation which we use the 'general property tax'. In all cities of any size the value of personal property is much beyond that of real estate. Nevertheless, the tax on personal property is one-tenth, or one-thirtieth as great as the tax on real estate. In fact the term 'general property tax' is now recognized as a euphemism for a real estate tax. Even so the farmer pays taxes on his personal property, to the last jot and tittle. Here is a serious discrimination.

Secondly, property is not a good criterion of ability to pay. A few illustrations will suffice. For example a meat dealer may have on hand from day to day a single thousand dollars' worth of meat. He may have a complete turnover of capital several times a month. His income might be, net, $5,000 or $10,000 a year. A department store with a stock of goods worth $50,000, with two or three turnovers per year, may show no more net profit annually. Yet on the basis of the general property tax the proprietor will, or should according to law, pay fifty times as much tax, and this under a system which is lauded as just if only properly enforced! A more extreme example may be found in the case of a broker, who owns virtually no stock of goods, yet who may have as much income as the meat dealer, or department store owner. In a city with a 20-mill tax these three business men would pay, respectively, on personal property, taxes as follows: the meat dealer $20, the department store proprietor $1,000, the broker nothing. That is to say, such would be the case were the law fully enforced. The palpable inequity of such a law is clearly a reason why it is not enforced. But the widespread unenforcement of a law seldom results in either equality, or equity, of treatment.

The first and worst thing to be said about the farm tax situation is that the farmers are subject to the general property tax to the full of its intents and implications, conforming to it in both theory and practice. The majority of the American people still believe that in order to make the general property tax acceptable and desirable all that is needed is the enforcement of it in the city comparable with its enforcement in the country. Nothing could be farther from the truth. Fully and perfectly enforced the general property tax would be an abomination. It is as hopeless as the doctrine of total depravity. The better it is lived up to, the more will the work of reform be needed.

We are just finishing a study, covering six Wisconsin counties, which undertakes to compare the percentage of net income required on the part of farmers and non-farmers respectively in the payment of their property and income taxes. Substantially all of the property taxes are for county, city, village, and town purposes. The state income-tax is distributed 50 per cent. to the locality of the payer, 10 per cent. to the county, 40 per cent. to the state. This leaves, of the taxes considered in the study, the federal income-tax alone for the general government. This federal tax was in 1929 16 per cent. of the total taxes paid in the six counties. In 1933 it fell to 8 per cent. The share of the state in the state income-tax was 11 per cent. of all taxes paid in 1929; in 1933 it was only 5 per cent. Thus in the former year 27 per cent. of the property and income taxes collected was used outside the six counties; 73 per cent. was absorbed locally. In the latter year the amount taken out of the counties had fallen to 13 per cent., leaving 87 per cent. for local use.

I am speaking too exclusively of Wisconsin to permit the presentation of a true national picture. In Wisconsin we have had, for example, no general property tax for some years, the state being taken care of out of special revenues. In some of our states, the state revenues come from property taxation to the extent of 60 or 80 per cent. Also in Wisconsin we have no general sales tax, which is found in over a third of our states; also Wisconsin has no poll tax.

The farmers pay almost no federal income-tax and but little state income-tax. Of their total taxes one dollar in a hundred paid will take care of the levy on income. The farmer is, however, a heavy taxpayer, and his taxes are paid out of income, but if he knew the rate of payment on his net income, if and when such occurred, required to pay his property taxes, he would start a civil war. The farmers of these six counties pay the bulk of their taxes on real estate, assessed not on the basis of its selling value but so as to yield the required amount of revenue without putting the rate up beyond something like 15 mills. The real estate item in these six counties amounted in 1929 to 90 per cent. of all taxes paid; in 1933 to 94 per cent. So far as the farmer is concerned, the general property tax is clearly a real estate tax. The crux of the whole matter is not what kind of tax he pays, but how much of his income is required to meet the payment.

The net income here used is that prescribed by the state income-tax law and allows for a reasonable deduction of annual expenses from gross income. Farmers who do not submit actual figures showing the value of farm produce used for family consumption are required to add to their income statement $90 for each adult and $60 for each child of the household.

The number of reports submitted by farmers to the income-tax assessor, and used as the basis of the study, during recent years has been small. As a result the basis of calculation is narrower than one would wish. On the other hand there is every reason to believe that the farmers making reports had larger incomes than those not reporting. If this assumption is correct, the findings make a more favourable showing for the present tax system than would be the case were all the farmers to submit reports, since in all reason their tax payments are higher in proportion to their incomes than are the payments of those who now are reporting. If this assumption is not true, the whole tax administration has gone wrong, since it is a major part of its business to ferret out the names of all citizens who qualify under the law to pay income-taxes.

Out of twenty thousand farmers living in this six-county district just about a tenth make income-tax reports. For the year 1929, before the depression, the reports showed an average net income of owner-operators of $1,717. In 1933 the average income for those reporting was $848, or barely half as much.

Out of the incomes for these two years, the first of which was one of the best years for farmers since the War, the latter one of the worst, the tax collectors for 1929 took 20 per cent., for 1933, 23 per cent. While it might not be hard to pay a fifth, and more, of one's income to the state out of an ample income, taxes of such proportions as these deducted from incomes which are distressingly low to begin with is a matter of public concern, or at least it should be.

For the whole non-farmer group, for which the sample used (all reporting) is ample, the average taxable income in 1929 was $2,736, and in 1933 was $1,697. It may occur to some that these people also had small incomes. True enough they are not princely, but it must be noticed that, whereas the farmers' income represented the full income for the family on nearly all farms, in the city it is not at all unusual for two or three members of the same family to submit income-tax reports and pay income-taxes. Often the amounts of income reported in the city are small, but even in the modest-sized cities of this district there are thousands of clerks and labourers who have little or no property investment but who are earning more than a living and so by paying a few dollars of income-taxes get on the list, bringing the average income figure down to a rather low level. The most significant consideration is whether or not they can pay the taxes demanded without hardship. The study indicates that, as compared with farmers, the taxes rest rather lightly on the city people.

Within the city group, meaning by the term all non-farmers, 4·2 per cent. of the taxable income in 1929 paid the tax bill, and in 1933, while somewhat higher, only 5·5 per cent was required. Non-farmer taxes are only a quarter as heavy as farmer taxes, judged by the returns made to the income-tax assessor. It may be well to notice at this point that there are three classes of non-farmers as found in the tax returns. First, and preponderantly, the city group, next the village group, and last, a group by no means unimportant, those living outside the city and village limits in rural districts but not farming. These consist of a motley number of people, including a few well-to-do lake-side dwellers, and labourers living on an acre of land outside of a city, raising a garden, and escaping high taxes on a dwelling-house. This group reports incomes three-quarters as large as that of the urban people but pays only a quarter as much tax.

It does not follow that the burden of tax payment on the part of the non-farmers is as light as these findings suggest. To begin with, the city dweller has a home to maintain outside of his business. Expenses for operating a home are not deductible for city people, whereas the upkeep of a farm-house is counted as a farm expense. In our calculations an allowance was made for taxes paid on homes by non-farmers. Even so there is a heavy maintenance expense for a city home, and this is not deductible. The expenses of living in the city are greater than in the country. Consequently, there is a different aspect to the income question in connexion with the two environments. A city dweller with a technical net income of a thousand dollars will find it harder to make ends meet than will a farmer with the same amount. Living may be better in the city than in the country, but it costs much more. Thus, while city incomes are in general much larger than in the country, they must be larger; or the relative standards and customs of city and country life respectively must undergo some fundamental changes. Direct comparisons of standards of living of country and city people, one against the other, have never been made satisfactorily, and probably cannot be made with convincing proofs.

We do not know, aside from the income-tax contribution above noticed, how much federal tax farmers pay. The federal income-tax, of late, yields just a little over a billion dollars, of which the ordinary farmers pay almost none. Other internal revenue, mainly excise taxes, amounts to another billion dollars. Here we have taxes on liquors, tobacco, proprietary medicines, and so on. Does the farmer use more or less of these things than his proportional share? He probably uses appreciably less, but the easiest way out of the calculation is to assume that he drinks and smokes and doctors himself about as much as others do.

The tariff yields around three or four hundred million dollars a year. Does the farmer pay more or less than his proportional share? Again we resort to an average. By this calculation it would appear that the farmers pay not far from $25 *per capita*, or $125 per family, in tariff charges towards the support of the federal government. Undoubtedly the amount is fully as large as this. How much additional cost is included in the rise in prices occasioned by tariff increases in domestic made goods is another matter. On this question there was for a hundred years a violent disagreement between our two major political parties. Now one of them says as little as possible on the subject, and the other appreciably less.

It has to be admitted that the farmers are paying more taxes than they can well afford to pay; that their taxes are higher, relatively, than city taxes, i.e. higher on the basis of the required portion of income demanded. We ask ourselves whether or not anything can be done about it. No doubt something can be done about it. It is inconceivable, however, that, through any efforts on the part of society, changes can be made which will make the payment of farm taxes as easy to pay as are income-tax payments by the well-to-do. To bring this about would require something quite equal to the transformations so easily executed, and happily related, in the world of fairy tales. It would mean making farmers in general prosperous, and incidentally relieve the New Deal of half its programme.

Without waiting for general farm prosperity there are some things that can be done. The first and no doubt the most important step in the direction of tax relief to farmers is the recognition of the fact that the greatest incomes, personal or corporate, within the states or the nation are not made locally. On the contrary, they are made within the sphere of business operations out of which they arise. For example, the big oil companies make their incomes out of groups of states, four, ten, or twenty. The railroads achieve their fortunes, and incur their deficits, within territory bounded by no state lines. General Motors and Chrysler deal in every state of the Union and in most foreign countries. Every wholesale grocer, every publisher, every banker, deals directly or indirectly with people scattered over the nation. The great bulk of business is done in cities. City wealth far overtops the wealth of the country-side.

Our interests are as cosmopolitan as modern business. It is just as much to the interest and advantage of the metropolitan centres that the educational system of the outlying districts be adequate as it is to the interest of these sparsely settled sections themselves. We are definitely waking up to the fact that the major issues of civilization are widespread. Hence we no longer leave to the small road district the main duty of providing segments of national, state, and county roads. On the contrary, we project roads from centre to centre, from coast to coast, taking the needed money out of the larger treasuries gathered from those better able to pay, no small amount being contributed by the users of the roads in the form of motor and gasoline taxes.

Likewise with schools, in a considerable number of the more progressive states education is receiving more and more so-called 'aid' from the state and county. This means that the poor districts may, and in many instances do, have schools about as good as those of the more favoured parts of the state. The teachers get about the same salary in a poverty stricken backwoods school district as in a highly flourishing neighbourhood. But a large part of the expenses of the poor district comes from the well-favoured portions of the state. They may come primarily from the cities. In any case they come from the pockets of those with the larger incomes.

This programme, which is destined to be carried much farther, means a subsidy to the less prosperous farmers (and to others as well). Baldly stated it means that, having settled and farmed land not suitable for such use, we will now contribute part of the cost of living to the people thus victimized and make life for them more tolerable. In other words, we invite them to stay where they are and in part at our expense.

We are to use, in keeping farmers in the country in numbers not needed for production, both aesthetics and anaesthetics. The small, family-sized farm has been too much extolled. In recent years it has been so appreciated as to become a goal in itself, though presumably not the ultimate goal. It will contribute a much needed element of population. It will keep a desirable balance (no one knows what it is) between urban and rural cultures. The farmer is to receive some pay to offset the disadvantages of living where he does not choose to live, in the form of subsidies. He is to get still more reward in the form of psychic income, and incidentally he is to ingest more Vitamen E than is found in the diet of his city cousins.

However, the outlook is not so bad. Having through several generations succeeded in settling land in order to see whether or not the people could make a living on it, we now have a good start in the opposite direction in our zoning laws and land utilization regulations. Just as surely as we begin to take money from the larger centres to be spent out on the frontier we shall be obliged to prescribe for the administration of such spending. If the farmers' taxes are in part paid by other people, these other people will insist on sitting on the boards which administer the use of the funds.

Raising money for these general purposes of equalizing opportunities and responsibilities will ultimately lead to a tax system based less exclusively on general property. We have clung to this old system longer than has any other nation mainly because we have, until very recently, managed to get along without taxing ourselves heavily. While taxes are light any system of raising them will do. Slowly and painfully we will turn to income and business taxes for a larger share of the required revenues. Real estate taxes will probably not be much lighter, except as necessity compels a reduction to a level which will not prove confiscatory. Farmers will continue, as they have already done in the past, to buy themselves free of tax burdens, entering that blissful state of the burdenless tax—a state as near by as attainable and as desirable as that of Alice and her Looking Glass World.

The conclusion seems inevitable. Farmers' taxes are too high, disproportionately high, due to the misguided faith in the old notion that ability to pay was commensurate with the market value of property held. This untenable doctrine has been distorted by the apparent necessity of taxing farm people on assessments quite beyond values corresponding to capitalized incomes. It will be necessary to bring them down to the level set by decreased incomes, and meet the deficit by dipping more heavily into incomes which are more ample.