TAXES AND THE FARMER

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As everybody knows, local governments raise the bulk of the money they need from their own sources by taxing property, including farm property.

The effective property tax rate is generally a little over 1 percent—in urban areas, up to 1.5 percent—of value. The data we have indicate that farmers have paid about 1 percent in property taxes on land and machinery.

But the average does not really serve our purposes, because it conceals more than it reveals about the impact of the property tax upon the individual farmer in the individual year. The property tax can be, and is, in a period of drouth or of low prices, a heavy fixed burden. I know farmers who teach school, or whose wives do, in order to pay the taxes to avoid losing land which may for the year be producing almost nothing.

Yet the property tax is needed to support a stable and relatively fixed cost—that of local government—even though it must be paid out of fluctuating income.

Now this is not really a new problem, but its impact has been high in our state in the past few years, when drouth has been coupled with low prices. And as drouth spreads or its incidence transfers to other parts of the country, others of you will become increasingly aware of the difficulties this can create for the farmer.

To be sure, the problem has not reached anything like the severity of the depression and the heavy rate of tax sales and foreclosures of those years. Yet if this can be a problem in years of high prosperity generally, what might it become if the economy suffers a setback?

RISING VALUE OF LAND

Moreover, modern experience suggests increasing presence of a third compounding and relatively new element in this analysis—the changing and rising value of land.

You can see this most quickly in suburban areas. Farmers reach the point where they can sell for $8,000 an acre the land for which they may have paid $100 an acre. I have seen land that was offered me just outside the city of Denver at $560 an acre nine years ago, sell two years ago at $11,000 an acre. If the farmer in the suburbs
is fortunate, the assessor looks to present use, rather than future use, in fixing assessed value—and the farmer can afford to hold the land. If the assessor tries to evaluate the land at the value of adjacent lands which have already transferred to higher use, most farmers would be forced to sell.

What has been happening? We have had inflation as a chronic, if not a constant, force during the past 15 years. It has been supported not only by wars and by private if not public deficit spending, but also by increasing population growth—a population or demographic explosion, if you will.

This has enhanced land as an investment. Moreover, the changing technology of transportation has led to much more widespread competition for land. Suburbanites need not bunch up along railroad lines, or even along major highway lines. The auto permits any site within driving radius to be considered a prospective home site, and a prospective industrial or commercial site as well.

Agricultural land is now sought, especially in the vicinity of cities, by all kinds of investors, home owners, speculators, and "agriculturists."

But farm land anywhere is also purchased by corporations that operate farms, for they are anxious to enlarge or diversify their holdings. Long-run speculation by those who do not need or expect a current income from the land then supports its value even during what the farmer sees as "bad years." There is a changing set of values regarding farm land that certainly is not now reflected in farm income. But farm taxes will reflect this value, and rise—regardless of what happens to income.

**IS THE PROPERTY TAX FAIR TO FARMERS?**

Questions, therefore, rise more and more insistently: Is the property tax outmoded? Is it unfair to farmers?

Some of you might well contend that it always has been outmoded but refuses to die because no one has found anything better to replace it. Perhaps these new forces, coupled with those already operating, are creating the unrest that justifies a re-examination. Your extension centers and your experiment stations—your agricultural college faculties—might well give this problem more thought.

Part of this problem is described in Carl Kraenzel's excellent volume, *The Great Plains in Transition*.

Farmers are willing to assume their share of the tax load, but would like to see a way of doing it that does not sink them in bad
years. Farmers could pay taxes generously when harvests, and prices, have done well by them.

If you grant, even tentatively, the hypotheses set forth above—where do we go? What better ways are there? Are there any we have not already examined in the past? I would like to list and explore briefly several avenues that may be worthy of closer study to help place the tax load on farmers more equitably and more efficiently for the economy.

1. **Reserve Funds** accumulated by local governments is an old idea but worth another look, at least. Theorists have always been attracted to it, but practicing politicians tend to be skeptical. They have reason and experience on their side.

The natural forces of political life all work against the use of this technique. Terms of office are short—frequently only two years, rarely over four years. Reserves are difficult to build under these circumstances. Those who would control the reserve want to win the next election. Hence, they are tempted either to cut taxes rather than build the reserve—or to spend the reserve on some public project that will win voter acceptance. Present benefits look better than future hypothetical needs.

Finally, there will be a reluctance to admit that poor years lie ahead. We like to think that the *best* is really the *average*.

You may well re-examine the reserve fund idea. The 1951 New York City Finance Study contained a proposal including some elaborate devices to protect such a reserve. But I still have little confidence in it for the average (and there's that word "average" again) rural county.

2. **Deficit Spending.** If we cannot save when rich, perhaps we could refrain from borrowing except when we are poor. Unhappily, that is the worst, and least likely, time to borrow successfully. The loan, if it is made, requires pledging of real estate. Moreover, bond holders want to be paid on a predictable schedule. If the second year is worse than the first, debt service simply becomes a further burden to be carried. I see little hope in deficit spending to cut the burden of oppressive taxes during low-income years.

3. **Increased State and Federal Aid for the More Costly Local Services.** The strong argument for grants-in-aid is that they couple the superior money raising power of the central government with the happier administrative situation of decentralization.

Parenthetically, we find a growing campaign from such sources as NAM and the Foundation for Economic Education to do away with
grants-in-aid. Those who would do so must remember that one alternative to grants-in-aid is to centralize the service fully, so that the local community would have no direct voice in schools, highways, welfare, and health—the big four in the grant-in-aid field. I have had my say about grants-in-aid in my thesis, published 10 years ago by the Social Security Administration.

To be more specific: State aid for schools (and federal aid if it ever comes) might carry a larger share of the cost, and reduce the burden of education upon the local tax base.

Many states still carry a very low percent of the load. Here is the single biggest area for cutting local taxes. Local governments, from their own sources, paid 5.8 billion dollars for public education (largely out of property taxes). State and federal outlays for education came to 5.4 billion dollars, or less than half of the total cost.

Or, take roads and streets: With the new federal program, we have excellent provisions for state and federal financing of the major highway system. But highway user revenues, even though shared with counties and other local units of government, fall short by 1.3 billion dollars of covering the annual costs of local roads and streets—and this burden still falls on the local property tax.

Many states still require a local contribution to the public assistance programs. Many others do not, or require it only for the smaller programs. Nonetheless, here again is an area where further state financial participation, and possibly abandonment of local financial participation, which now totals 500 million dollars, would also help cut local property tax loads. Fortunately, the extensions of Old Age and Survivors Insurance will help reduce the burden that must be borne by public assistance.

The new federal aid for medical care to public assistance clients is helpful, but even more support for local health centers in the public health field will help cut local costs.

Proposals for a general purpose grant from the central authorities have received modest attention in the United States and have been used in both Canada and Australia. While theoretically attractive, there is not much likelihood of their use in the United States except possibly to replace the present pattern of aids, which I think to be unlikely.

4. State reserve funds have somewhat better possibilities than local ones, but some of the same pressures operate as listed under the local reserve funds. Experience suggests that these may have their place. Colorado has just written a provision into its constitution for
assuring its old age pension—and 5 million dollars is constitutionally earmarked for this purpose.

5. **INCOME TAXES.** Couple any of the foregoing with wider reliance upon state and federal income taxes, so that the farmer will pay when he has the money—not when he does not have it. No one ever went broke trying to pay an income tax! But many have gone broke trying to pay property or sales taxes. The farmer needs to be sold further on the income tax, and show greater willingness to accept it.

While efforts at averaging to achieve equity have been abandoned, the farmer might well as for a long period carry forward losses to make the tax fairer.

6. **THE CLASSIFIED PROPERTY TAX** should be given a new review. Possibly we could treat farmers more equitably by devising a property classification system that will place the burden more effectively on the productive property and more lightly on property yielding little or no income.

For example, a city residence is potentially an investment property. A rural residence is only valuable as farm workers may need it for housing. Placing equal taxes on them actually encourages absentee farming, or “suitcase farming.” The classified property tax also has other virtues than its potential contribution to the central problem here raised.

7. **DEFENSE COSTS.** I cannot close this discussion without drawing your attention to the primary factor in our present public finance—the exceedingly high cost of military spending. For the past 18 years, we have had pressures not to do many things that the public would normally try to do because we could not afford higher taxes when taxes were so high for military purposes.

A community, and a nation, cannot forever go on this way. At some point we have to face the rightful demands of the civilian economy—which is, after all, the basis of the military economy as well. We cannot afford to do without adequate schools and colleges, decent roads and highways, proper health care, public institutions that can turn their inmates into useful citizens, and all the other apparatus that any civilized government must have to meet the demands of its citizens.

We have been shirking the other duties or doing them in a niggardly way because we want to go first class in a military way. How thoroughly prepared must we be for total destruction? Or, as one bitter critic has put it: “Let the H-bomb not be the final sequel in which all men are cremated equal.”
To put it affirmatively: In a world where many have long looked to us as the epitome of the achievements of both democracy and technology, might we not be truly more secure if we devoted a large part of our resources to meeting human need, both at home and abroad, and less of it to plotting for the awful destruction of human life that the atomic age has made so devilishly possible?

Farmers, like mothers, are creative people whose job is to bring life into the world—not to destroy the possibility of life.

If we could operate from our faith rather than from our fears in answering these questions, then we could make the solution of the other problems with which we have dealt much simpler.

Tax policy cannot be divorced from the times in which we live and from the great assumptions by which we live. If we could successfully challenge and constructively change some of those assumptions, we could devise a better tax system not only for farmers but for everyone else as well.