Trends in Taxation

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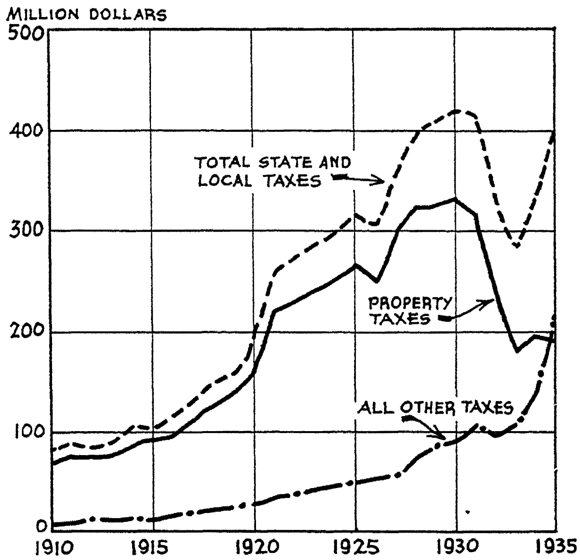

Receipts from State and Local Taxes in Ohio, 1910-1935

The top line illustrates the trend in the total revenues collected. Property taxes (middle line) have been reduced since 1930, but that loss has been ıeplaced by other taxes (lower line).

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TRENDS IN TAXATION

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Taxation, the method of raising funds for government, often becomes a political issue, agitated by special interest groups desirous of escaping a part of the burden of taxation or of benefiting from tax monies paid. Taxation also has a bearing on economic and social relationships. These, however, are ever-shifting. Taxes are adjusted to fit a given set of conditions; then those conditions change, requiring another adjustment in taxes. Therefore, accurate information about taxation is of value to individuals and to the public in order that a sound and a just system of taxation be practiced.

It is a principle of democratic government that taxation can be imposed only through the consent of the governed or by their duly elected representatives. No better justification is necessary for the study of taxation by every citizen who, as a voter, has the responsibility of shaping taxation policy. The purpose of this publication is to give an appraisal of our taxation system by discussing some of the trends which exist at the present time.

The term "trend" signifies tendency or inclination. Taxation has a number of trends worthy of consideration in these few pages, and other trends or tendencies which perhaps cannot be discussed due to the limitations of space. But it is helpful to arrange our thinking around a few essential facts which relate to the general situation. Trends of particular importance are (1) the tendency of the total volume of taxes to increase, (2) the rise and decline of the general property tax, (3) the use of consumption (sales) taxes, (4) the development of the income tax, and (5) coordination of federal with state and local systems of taxation.

Taxes Increase

The Declaration of Independence written some 160 years ago contained these words directed at the king of Great Britain: "He has erected a multitude of new offices, and sent hither swarms of officers to harass our people and eat out their substance." The above quotation suggests that high taxes were considered a menace to the welfare of the people 160 years ago. As a matter of fact, taxation was a perennial issue even then, as now.

As far back as reliable information is available, the tendency has been for taxes to increase. This situation is in no way peculiar to our own state or nation, or to nations under any particular form of government. It can be associated in a general way with the development of our industrial type of civilization, and might be considered another product of the machine age. But such a broad generalization does not very well explain all that has happened. Studying the circumstances attending the rising tide of taxation — federal, state, and local — will help to clarify our present situation. Also, perhaps some perspective of the future can be gained by viewing the past. With these thoughts in mind let us first examine the total volume of taxes.

Table 1.—Federal, State and Local Tax Collections in the United States in Selected Fiscal Years, 1890 to 1930 (amount in millions)

(Compiled by the National Industrial Conference Board)

Taxing Authority	1890	1903	1913	1921	1925	1930
Federal	$ 374	$ 521	$ 668	$4,905	$2,966	$ 3,468
State	96	155	300	783	1,107	1,780
Local	405	706	1,219	3,150	3,811	5,018
Total	875	1,382	2,187	8,838	7,884	10,266
AMOUNT PER CAPITA:						
Federal	5.93	6.43	6.92	32.43	25.71	28.15
State	1.52	1.92	3.11	5.17	9.59	14.45
Local	6.43	8.72	12.63	20.82	33.04	40.73
Total	13.88	17.07	22.66	58.42	68.34	83.33

Taxes Measured by Income

The total tax bill — federal, state, and local — was nearly twelve times as much in 1930 as in 1890 (Table 1.) But this does not accurately indicate the increase in burden, for national income was about six times as much in 1930 as in 1890. Thus it appears that as measured by income, the total tax burden was twice as high in 1930 as in 1890. Or, shown in Table 2, it has been calculated by the National Industrial Conference Board that 7.2 per cent of the national income was taken in taxes in 1890 and 14.4 in 1930; a peak came in the year 1921, with taxes equalling 16.2 per cent of the national income. Since 1930 the effects of the depression have upset again the normal relationship of taxes to income. Both declined in volume for a few years, but income dropped faster.

In view of present revenue requirements it is probable that the total tax bill will continue to equal or exceed from 12 to 15 per cent of the total income of the American people. One outgrowth of the depression has been the inauguration of new economic and social programs by both the national and state governments, the expenses of which will, in part, be paid from taxes.

Table 2.—Tax Collections and National Income

Year	National Income in Billions	Per Cent That Taxes Are of National Income			
		Federal	State	Local	Total
1890	12.1	3.1	0.8	3.3	7.2
1903	20.5	2.5	0.8	3.4	6.7
1913	34.4	1.9	0.9	3.6	6.4
1921	54.6	9.0	1.4	3.8	16.2
1925	79.2	3.7	1.4	4.8	10.0
1930	71.0	4.9	2.5	7.1	14.4
1935	53.6	. .			16.8

National Industrial Conference Board, Cost of Government in the United States 1929-1930, Table 26, p. 78. 1935 income estimate by U. S. Department of Commerce; 1935 taxes estimate by author.

Table 3.—Federal, State, and Local Revenue Collections in Ohio in Selected Years

Year	Federal Internal Revenue*		State Revenue		Local Revenue		Total	
	Total dollars (000 omitted)	Per capita dollars	Total dollars (000 omitted)	Per capita dollars	Total dollars (000 omitted)	Per capita dollars	Total dollars (000 omitted)	Per capita dollars
1916....	33,743	6.31	19,177	3.58	102,171	19.05	155,091	28.94
1920....	373,746	64.89	31,592	5.49	155,924	27.07	561,262	97.45
1925....	142,497	22.29	44,329	7.15	276,750	44.62	463,576	74.06
1930....	145,630	21.91	79,205	11.92	383,358	57.68	608,193	91.51
1933....	69,478	10.05	63,114	9.13	273,735	39.60	406,327	58.78

* Includes income and estate taxes and the miscellaneous excise and sales taxes of the federal government. Does not include import duties.

Up to 1930 the greatest relative increase has been in state taxation, followed by local, then federal. Due to the fact that property taxation, which is the chief resource of local finance, now seems to be fully exploited, more reliance must be placed in the future on state and federal taxation. What effect will this have on local government?

Our interest in respect to taxes centers in Ohio. Table 3 gives the federal, state and local collections in this state over a period of years. Since customs receipts of the federal government are not included, the total taxes paid by residents of Ohio would be a little larger than the sums represented by the figures in Table 3. However, it is plain that the trends in Ohio are following about the same pattern exhibited by the rest of the United States — that is, state taxes, while still smaller in total than local, are increasing faster due to the process of substituting state finance for local, an illustration of which is the state aid now given our schools and other local government out of sales tax revenues.

From estimates of income (made by the Brookings Institution) and the taxes represented in Table 3, it appears that the tax burden in Ohio, when put in terms of income, does not differ much from the average for the United States. For example, in 1929 the percentages of the aggregate income of the people of Ohio paid in taxes were: Federal, 2.98 per cent; State, 1.30 per cent; Local, 7.29 per cent.

Ohio's System Includes New Taxes

In 1916 the state and local governments of Ohio collected revenues totaling $121,348,000. A peak was reached in 1930 when revenue collections totaled $462,563,000; then pressure for tax reduction, coupled with subnormal economic conditions, caused a decline to $336,849,000 in 1933. Since then, new demands for governmental services have arisen causing the adoption of new taxes, which increased the revenue collections to an estimated total of $420,963,000 (federal emergency relief funds not included).

The data in Table 4 show what percentage of the total revenues came from various sources in 1916, 1930, 1933, and 1935.

Table 4.—Sources of Public Revenues in Ohio and the Per Cent of the Total Revenue Which Each Yielded in 1916, 1930, 1933, and 1935

Sources of Revenue	Per Cent of Total Revenue in			
	1916	1930	1933	1935
General property tax	74.65	63.50	56.03	42.60
Special assessments on real estate	7.10	7.72	4.35	4.02
State inheritance tax	0.31	1.62	1.09	1.02
Corporation franchise tax	2.22	1.49	1.12	.91
Public utility excise tax	2.64	1.41	1.80	1.59
Insurance company fees	1.30	1.43	1.82	1.33
Motor vehicle licenses	1.81	2.99	5.09	5.09
Gasoline tax	....	8.38	10.08	9.68
Cigarette tax and licenses	0.10	0.23	1.38	1.45
Liquor and beverage taxes	5.09	....	0.69	3.35
Miscellaneous taxes, fees, fines, etc.	4.56	10.06	14.63	16.57
Federal aid	0.22	1.17	1.94*	1.69*
Retail sales tax	....	....	....	10.70
Total	100.00	100.00	100.00	100.00

* Emergency relief funds not included.

Emergency financing since 1933 has at least temporarily changed the pattern of Ohio's tax system. Excise taxes on cosmetics and admissions, a system of liquor taxes, and finally the retail sales tax have been the most important new taxes employed to supplement the existing revenues. The approximate annual yield of these taxes has been as follows: cosmetics, $1,000,000; admissions, $3,-200,000; beverage and liquor permits and taxes, $14,000,000; retail sales tax, $50,000,000. It is apparent that the retail sales tax has been the only measure adopted with a sufficiently wide base to make it a major source of revenue; the closest competitor is the system of liquor taxes and licenses.

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The Rise and Decline of the General Property Tax

Property taxation is approximately as old as is the institution of private property. In its early stages, the tax was applied to individual objects — land, buildings, livestock, tools, and equipment, household goods, etc. As society developed in complexity, the tax was widened to specifically include the new objects of wealth such as stocks and bonds. Finally, the struggle to apply the tax to each new object or right was given up, and instead it was made an inclusive tax covering all wealth and property rights at uniform rates. This stage of development was reached in Ohio in the second quarter of the nineteenth century. The uniform rule of property taxation was written into the state constitution in 1851, but all efforts to revise the law to fit changed conditions failed until 1930.

A simple social organization with a large proportion of wealth represented in real estate and chattels is favorable to the successful operation of a general property tax. Under such conditions property ownership is a fairly good index of tax paying ability, and distributes the burden of government widely enough over the entire population to operate with reasonable success. These conditions existed in Ohio up to the time of the Civil War.

Between the Civil War and 1900, it became increasingly evident that the general property tax could not be used with perfect satisfaction for both state and local revenue, due partly to the difficulty of distributing the cost of state government to local units in an equitable manner. Also, as governmental costs were increasing, the burden of property taxation became more irksome. By degrees Ohio worked toward the policy of leaving property taxation for local finance, supporting state activities by other sources of revenue. The last levy on property by the state was for the World War compensation bonds, the last of which were retired in 1932. But limiting the property tax to local use did not remove some basic difficulties.

Several weaknesses of the general property tax have contributed to its declining importance even as a source of local revenue. Among these are: (1) the growing volume of intangible property rights which can so easily evade taxation; (2) the increase in the number of people with little or no taxable property, some of whom enjoy comfortable incomes; (3) the expansion of service, such as highways, wherein the benefits accruing to individuals are poorly correlated with the distribution of property rights; (4) the difficulty of securing equitable appraisals, a point of increasing importance when tax rates are high; and (5) the double taxation which arises when both physical objects of wealth and the intangible property rights based on physical wealth are taxed.

The fact that popular support for tax reform has gained momentum so slowly caused real estate taxes to become so oppressive that tax delinquency grew to alarming proportions between 1925 and 1932, a situation directly precipitated by subnormal economic conditions. About 7 per cent of the rural land area in Ohio was tax delinquent in 1928, 8 per cent in 1929, 13 per cent in 1930, 18 per cent in 1931, and 22 per cent in 1932. During the same period, urban real estate tax delinquency increased at an even faster rate.

The prime reason for the growth of farm tax delinquency is illustrated by the divergent trends of taxes and price of farm products after 1920 (see Table 5). Either a decrease in taxes or an increase in prices would relieve the situation. Both of these forces were operating after 1933, and by

*Table 5.—Index Numbers of Ohio Farm Taxes and Prices of Farm Products in Selected Years—1881 to 1935** (1914=100)

Year	Taxes**	Prices of Farm Products	Taxes in Terms of Prices
1881	60	95	63
1890	67	73	92
1900	68	68	100
1910	95	94	101
1914	100	100	100
1921	197	126	156
1928	234	147	159
1929	238	144	165
1930	236	122	193
1931	225	85	265
1932	171	60	285
1933	153	66	232
1934	135	85	159
1935	112	110	102

* Source of data: Ohio Experiment Station Bulletin 560 "Public Revenue in Ohio with Especial Reference to Rural Taxation," January, 1936.

** Amount due for collection in year designated.

1935 the burden of farm taxes was lowered to approximately the pre-war level. It is true that further economies could be attained through changes in governmental organization, but such savings must come slowly.

Tax Reform Still Needed

The greater part of the property tax burden has been associated with road and school finance. Both of these services now receive their main support from other sources, but the revision came so tardily that Ohio was facing a tragic breakdown in the property tax system. Up to the present time (1937) no thoroughgoing tax reform has been accomplished, due partly to the inability of the legislature to agree on any plan and partly to the pressure of emergency financing which practically forced the adoption of the retail sales tax in 1935.

The adoption of the classified property tax in Ohio indicates the first stage of disintegration of the legal framework of the general property tax. How fast succeeding stages develop is entirely problematical. For that matter, no one can be certain that the sequence of events in Ohio *will* follow the traditional pattern, which is the abandonment of the tax on (1) intangibles, (2) tangible personal property, and (3) a modification of the tax to give a different application to improvements than to land. In its final stage, the general property tax tends to be a tax on land alone.

In Ohio, the classified property tax very nearly abandoned the taxation of intangibles as property, going over to an income base, although legally still held to be a property tax. Some tangible personal property, household goods, and motor vehicles were entirely exempted and nearly all other tangible personal property was made partially exempt. Some agitation exists for the partial exemption of real estate, either through some minimum exemption of improvements alone, or improvements and land (usually called a homestead exemption). The current tax rate limitation is, in effect, a type of partial exemption. A proposed law in Michigan (an initiative petition) would limit property tax rates to levies for debt.

All these movements indicate how the property tax is declining in importance as a source of public revenue. It may be that the disturbed economic conditions of the past few years have precipitated action relative to the property tax, and that economic recovery may reverse the trend of events, particularly in respect to increasing property tax rates and in heavier taxes on real estate. On the other hand, both the long time and short time trends are in the direction of less reliance on the taxation of *personal* property.

Results of Classification

It may well prove that the adoption of a classified property tax in 1931 was the most decisive change in Ohio's revenue system in a century. This broke an impasse in the general property tax situation, and opened the door for tax reforms which have been badly needed for a generation. On the other hand, it cannot be claimed up to the present time that the classified tax is a more effective means of raising revenue than the old general property tax. But the burden on intangible property has been redistributed over approximately ten times the valuation formerly taxed, and the total burden on tangible property considerably lightened.

The two tables following give a comparison of property valuation and taxes before and after classification.

Table 6.—Valuation of Various Types of Property in Ohio Before and After Classification (000 omitted)

Taken from data supplied by the Ohio Tax Commission.

Type of Property	1930		1932	
	Dollars	Per cent	Dollars	Per cent
Real estate	9,325,361*	69.32	7,575,621	42.27
Public utility property	1,704,350	12.67	1,580,174	8.82
Tangible personal property (other than public utility property)	1,555,876	11.56	876,446	4.89
Intangible personal property	867,360	6.45	7,887,669**	44.02
Total	13,452,947	100.00	17,919,910	100.00

* All real estate less $50,775,100 public utility property not used in operation.

** The intangible tax duplicate of Ohio in 1932 was $3,813,617,545.94, but as calculated for taxation by the tax commission, the income of productive investments ($214,423,742.94) is the basis of taxation and is entered on the tax duplicate instead of the supposedly true value of the property, which as estimated herein was $4,288,474,800 ($214,423,742.94 capitalized at 5 per cent).

Table 7.—Amount of Tax Levied on Various Types of Property in Ohio Before and After Classification

Taken from data supplied by the Ohio Tax Commission.

Type of Property	1930		1932	
	Dollars	Per cent	Dollars	Per cent
Real estate	209,258,631	69.32	166,593,308	69.42
Public utility property	38,247,359	12.67	34,752,242	14.48
Tangible personal property (other than public utility property)	34,896,564	11.56	20,090,949	8.37
Intangible personal property	19,470,834	6.45	18,537,320	7.73
Total	301,873,388	100.00	239,973,819	100.00

Sales Taxes

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Consumption Taxes

A large group of revenue measures are intended to tax expenditures. Various devices are used to collect the tax in the first instance. For example, tariffs or import duties are paid when articles are brought into the country, after which this expense is passed along as part of the price. Excises are taxes applied to articles and services produced within the country and are collected at some point between the producer and consumer; for example, the stamp taxes on tobacco, the wholesale and retail sales taxes adopted by various states, and the long list of special sales taxes used by both the federal and state governments. The general assumption is that a consumption tax becomes a part of the price the final consumer pays.

This type of taxation has always been important, but not always obvious, because the mode of collection so often conceals the tax from the general public. Thus, import duties were the major source of federal revenue up to the time of the Civil War, largely due to the presence of violent opposition to internal taxation. After 1860, excise taxes were used to a greater extent until partially supplanted by the federal income tax after 1913. For a generation previous to that time, excises and import duties were about equal in yield, and together accounted for about 90 per cent of all ordinary federal receipts. Finally, the emergencies arising within the last decade have caused the federal government to again resort to consumption taxation. Some measure of the shift is indicated by the fact that of the federal internal revenue collections in Ohio, 70 per cent came from income taxes in 1926; 77 per cent, in 1932; 30 per cent, in 1934; and 29 per cent, in 1935. About two-thirds of the federal tax collections in 1935 were from taxes on consumption and one-third from personal and corporation income taxes, and taxes on excess profits, estates, and gifts.

This decline in the use of the general property tax as a source of state revenue has been to a large extent offset by the adoption of excise and other taxes on business, which may partially come out of profits but which more often, either directly or indirectly, become a part of the price the final consumer pays. This tendency has been noteworthy since 1920, and particularly since 1930. In addition to a long list of excise taxes on individual articles, 28 state legislatures have enacted general sales tax laws, nearly always expressly as emergency measures. By the middle of 1936, only 21 states retained the general sales tax. The laws had expired in three states, two were repealed, one was vetoed, and one defeated by a referendum vote. Nearly all the general sales tax laws had a date fixed for expiration, the most common being some date in 1937 (11 states). Of course, reenactment is probable in a number of states, as has happened in Ohio. But the fact that a 25 per cent mortality has already occurred indicates the unpopularity of a retail sales tax.

Some people fear that Ohio and other states will make a general sales tax a part of the permanent revenue system, an action of expediency rather than sound public policy. A general sales tax has the advantage of being a good producer of revenue and the disadvantage of certain fundamental weaknesses. The presumption is that, bearing as it does with undue severity on persons of low incomes, a general sales tax lowers the standard of living and reduces the purchasing power of the major part of the population, thereby lessening the volume of goods and services produced and used.

As compared with the general sales tax, less objection may apply to certain special sales taxes, both federal and state, now levied against a long list of individual items. Some of these articles and services, such as alcoholic beverages, tobacco, and amusements, can be classed as luxuries or even may be harmful, and therefore a reduction in volume of purchases due to the imposition of a tax may be consistent with public policy.

Special note should be made in respect to the gasoline tax. So far as the mechanics of collection are concerned this is a sales tax; but so long as the proceeds go to finance highways suitable for motor vehicles, the gasoline tax is a type of fee charged for the special benefit enjoyed by the motorist. However, when the proceeds are used to finance poor relief, schools, and general government, as has happened to some extent since 1930, the gasoline tax becomes merely another special sale or excise tax.

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History and Status of Income Taxation

Agreement is fairly general that tax contributions should be apportioned with some consideration given to the ability to pay. Property, expenditures, and income are generally assumed to be indexes of such ability; but property and consumption taxes tend to place a heavier burden (as measured by ability to pay) on persons of low incomes as compared with persons of high incomes, and therefore are considered to be regressive in effect. This is on the assumption that, for instance, a $100 contribution (10 per cent) out of a $1000 income is a more burdensome tax than $1000 out of a $10,000 income.

Income and inheritance tax rates are usually made progressive on the theory that ability to pay increases somewhat faster than, say, the proportional increases from $1000 to $10,000. Also it is argued that some taxes should be progressive in order to offset the regressive taxes already in use. The above briefly states the fundamental reasons favoring the incorporation of a progressive rate income tax in the revenue system.

Some of the American colonies recognized the principle of ability to pay in certain taxes applied to the earning capacity of persons in skilled occupations or professions. The United States government imposed an income tax during the Civil War, repealing the law in 1872. In 1894 Congress enacted an income tax which was declared unconstitutional on the grounds that it was a direct tax and, therefore, to be legal would need to be apportioned among the various states according to population. By 1913 the states had ratified the 16th amendment to the Constitution and the federal income tax on personal and corporation incomes was immediately enacted. As previously stated, the income tax previous to the recent depression years was yielding approximately one-half of the ordinary receipts of the federal government, which can be taken to mean that substantial recognition had been given to the "ability to pay" theory in the federal tax system.

State Income Tax Movement Slowly Gains in Favor

Adoption of the income tax by the various states has proceeded slowly. Massachusetts has imposed such a tax ever since 1643. Several states used the tax for varying periods of time during the past century, particularly during the decades of 1840-50 and 1860-70, and a few states have used the tax continuously over a long period — Louisiana, from 1865 to the present time; North Carolina, since 1849; Virginia, since 1843. But the real impetus to the adoption of a state income tax has come during the last 25 years. This movement has been accelerated by (1) the breakdown in the general property tax, (2) the increasing demands for public revenue, and (3) the desire to modify the regressive features of existing tax systems by using a tax conforming more exactly to the ability to pay.

The success of this movement up to date is more potential than real. Approximately 30 states now levy a tax with income as the base. As measured in terms of the combined tax revenues, federal, state, and local, 14.7 per cent was secured from personal income and inheritance taxes in 1930 and 7.7 per cent in 1934. Taking individual states, we find that personal income and inheritance taxes in New York yielded 11.5 per cent of the state and local revenue in 1930 and 7.7 per cent in 1934; in Massachusetts 14.0 and 6.9 per cent; in Delaware 26.1 and 6.2 per cent; in Wisconsin 6.3 and 6.9 per cent.

It is often claimed that the income tax is a poor revenue producer. The above figures support such a contention. But it should be recognized that this disability is an administrative problem which may be solved when more experience is gained and when the tax is more generally adopted. All taxes are intended to be paid out of income. So far as the economic ability to pay is concerned, it should be possible to raise just as much money by the direct taxation of incomes alone as by the complicated system now used. The present low yield of income taxes as compared with the potential yield suggests that more revenue should be raised by income taxation and less by the property and consumption taxes now in use. But it need be recognized that no sudden transition to a new system of taxation is practical. As applied to the situation in Ohio, more important for the present is the initial adoption of an income tax law which in time could be developed into an important part of the revenue system.

Ohio Chooses a Flat Rate Tax

Ohio now imposes a flat rate income tax on productive investments. But this measure is legally considered a part of the classified property tax. Being a flat rate tax (5 per cent in the permanent law; 6 per cent, 1935 law) it does not introduce any element of progressiveness into the tax system. Of the 30 states with some type of income tax at the beginning of 1936, 5 used proportional flat rates and 25 progressive rates. The inheritance tax is the only measure in the Ohio tax system which does have progressive rates. In other words, nearly all state and local revenues are raised by measures which are regressive in effect.

The 1912 constitution of Ohio made provision for the passage of laws taxing inheritances and incomes at progressive rates, but subject to the condition that one-half of the revenue must be used in the municipality or township wherein the revenue originated. This provision greatly handicaps the use of these taxes, due to the fact that revenue needs by no means conform to the territorial pattern of tax collections. Determination of the method of distribution needs to be left open to legislative enactment in order to secure the necessary adjustments which are certain to arise from time to time. Placing details of tax legislation in the state constitution is a device used by special interests to delay changes in the tax system.

Coordination of Federal with State and Local Systems of Taxation

Taxation is a sovereign power of the state. In the United States, the individual states have surrendered part of this power to the federal government. States also delegate some of their taxing power to local subdivisions which in their own right have no power to tax. The fact that so many layers of government use the taxing power results in double and multiple taxation, duplication of administrative details, and great variation in the tax burden in different taxing jurisdictions. Indvidual states find it difficult to inaugurate the use of certain kinds of taxes not used in neighboring states, so that tax reform is retarded.

Progress in Coordination

The problem of coordination of federal with state and local systems of taxation has no easy solution; however, certain methods of procedure can be applied which offer a degree of improvement. One method is that used in inheritance taxation, as follows: in 1926, the federal estate tax law was modified to allow states 80 per cent of the federal tax yield as a credit on any death taxes levied by and paid to the state. This provision has tended to unify the inheritance tax laws in the various states. The same provision applied to the income tax would force all states to adopt such a tax. This credit provision has the virtue of eliminating inter-governmental tax competition, but it does not solve the problem of raising revenue in areas of limited resources.

Another device is to share a federally collected tax with the states. By this method payments could be apportioned according to needs, but the real difficulty is to agree on the method of apportionment. This plan also involves the surrender by the states of certain additional taxing power to the federal government.

A third plan of coordination is to completely surrender to the federal government the power to use certain taxes which experience indicates should be uniform over the whole nation. This particularly applies to taxes on income, inheritance, and certain types of sales tax. To compensate for this surrender, the federal government would assume responsibility for the financing of certain services up to a minimum standard. Federal control under this plan could be limited to the enforcement of the minimum standard. This last plan of procedure is already used both by the states and the federal government, and encroaches on local initiative only in respect to the use of the federal or state contribution.

Some Centralization is Necessary

The trend of events forces us to face the issue of coordinating the system of taxation: (1) in order that economic development will not be retarded by injustices on the taxpayer; (2) that the standards of public service which the common welfare demands can be supplied to all the people; and (3) that useless waste and duplication in the fiscal machinery can be avoided.

In facing this issue it must be recognized that local autonomy and the formation of policy by democratic methods are ideals which seem to be violated by the process of centralizing the fiscal system. This situation arises from the failure of community interest in public affairs to expand as fast as have economic and social relationships and the responsibilities that go with them.

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