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The Missouri Farmers' Tax Position

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The Missouri Farmers' Tax Position

CONRAD H. HAMMAR

There is contained in the Report of the State Survey Commission recently submitted to Governor Henry S. Caulfield the following statements regarding farm taxation. "In common with other states, Missouri has a serious agricultural tax problem. . . . The income of the farm owner and his capacity to pay taxes have been decreasing, while the tax burden has been greatly increased. . . . Under the present local tax system, farm taxes will go on increasing. A radical change is needed in order to prevent greater injustice and hardship."

It is in order to amplify these statements and to show their foundation in fact that the following material has been prepared.

INDEXES OF FARM TAXES AND INCOMES

A good general index of the farmers' income position is that involved in the comparison of the prices of farm products and the prices of all commodities or the general price level. If the prices of farm products are high in relation to the general price level, farm incomes should be relatively good. If the opposite is true and farm product prices low and the general price level high, there is a tendency for farmer incomes to be relatively low.

In Fig. 1 the index of taxes (which is available only from 1914 on) and the all-commodities and farm products price indexes are given for the years 1914 to 1928 inclusive. The tax index has been constructed by the Bureau of Agricultural Economics and is based on estimates of the total taxes paid on all farm property.

The prices of farm products rose faster than those of all commodities and taxes till 1918. Thereafter, they fell behind the general price level, though continuing above farm taxes till 1920. In 1921, however, prices of farm products broke from 205 the previous year to 116. The all-commodities index fell somewhat less, from 220 in 1920 to 150 in 1921, but taxes continued steadily upward. In 1928 with taxes at 263 per cent of their 1914 level the prices of farm products stood at 137 and the wholesale price level at 153. Farmers' incomes, it may be inferred, kept up with or ahead of taxes till the period 1918-1920. Since that time, with farm incomes greatly reduced, taxes have continued persistently upward.

An even more direct comparison of taxes and farm incomes is that afforded by contrasting the ratio of prices received by farmers for prod-

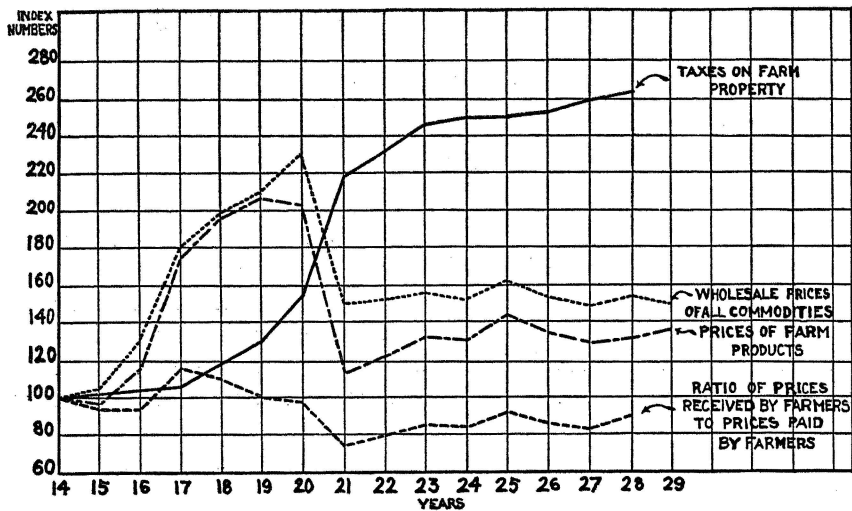


Fig. 1.—The Relation of Taxes on Farm Property to Price Levels of Farm Products and All Commodities, 1914-1929.

ucts they have to sell to prices paid by farmers for things they buy and the tax index. This ratio index, as in Fig. 1, indicated a rise in farm incomes to 1917 from the base year of 1914. Thereafter, prices paid rose much faster than prices received and after the decline the ratio index seems to have stabilized at somewhat below 90 per cent of its pre-war level while taxes in 1928 were more than two and one-half times their pre-war base.

Even in the pre-war period the tax burden of the farmer was probably somewhat in excess of that of other classes. It is not entirely satisfactory to judge tax burdens by comparing the proportions of the incomes of various persons appropriated for taxes. First, it is difficult to discover the exact tax burden borne by a particular class. Taxes are capitalized and shifted and mere money payments are often a poor basis for judging the actual tax cost. Secondly, strictly comparable incomes as between farmers and other classes are very difficult to secure. Too commonly certain elements of income, such as food and living from the farm, are left out of the account. The following data and analysis regarding relations between taxes and incomes are presented with the admission that they represent the situation only roughly.

In Table 1, adapted by Professors Warren and Pearson* from the report of the National Industrial Conference Board (an organization of manufacturers), farmers are shown to have paid a higher proportion

*Warren and Pearson, *Agricultural Situation*, p. 40.

TABLE 1.—DISTRIBUTION OF TAXES IN RELATION TO INCOMES OF FARMERS AND OTHERS IN THE UNITED STATES

Year	National income in millions of dollars		Taxes in millions of dollars		Ratio of taxes to income	
	Agriculture	Rest of community	Paid by farmers	Paid by rest of community	Farmers	Rest of community
1913	5,887	25,513	624	1570	10.6	5.5
1919	14,835	51,416	1232	6802	8.3	13.2
1921	8,715	41,285	1497	6866	17.2	16.6
1922	10,057	48,443	1436	5625	14.3	11.6

of their incomes in taxes than that paid by other groups both before the war and in the post-war period. In 1913 taxes were 10.6 per cent of farm income and only 5.5 per cent of the income of the rest of the community. Taxes as a percentage of income were higher for all groups after the war period and agriculture retained its same unfavorable position. Only during the war when price levels were highly advantageous to farmers were the positions of the two groups reversed.

A Wisconsin study shows the farmer in much the same position with regard to income and taxes as that shown by the Industrial Conference Board report. The comparisons made in this study were between farmers, city people and villagers. Data for the study were secured from the statements made by individual farmers and others in compliance with the income tax law of that state.

Three periods; a pre-war 1913 and 1914, a war period 1918 and 1919, and a post-war period 1923 and 1924, were studied so as to avoid the distorted picture that may result if the dependence is upon the figures for a single year. The investigation was limited to Dane county which includes a very fine agricultural community, several villages and the city of Madison. In 1924 approximately 19,000 income tax reports were filed in this county. However, only 214 farmers, 1353 city people and 133 village people reported for all six years. The percentages of incomes of the three groups absorbed by taxes for the three periods are given in the table below which is copied from page 18 of this bulletin.

Taxes in relation to income for these Dane county (Wisconsin) farmers were higher than those of the city or village group for each year of the six years of the three periods except 1918, when they dropped slightly below those of the urbanites. Even in the pre-war period farm taxes were higher than those in cities and villages. During the war, when farmers enjoyed unprecedentedly high incomes, taxes were much alike for all three groups. After the war the situation in this Wisconsin

TABLE 2.—PERCENTAGES OF PRE-WAR, WAR PERIOD AND POST-WAR INCOMES ABSORBED BY TAXES IN DANE COUNTY, WISCONSIN

Class	Percentage of Net Incomes Absorbed by Taxes						No. of Reports
	Pre-War Period		War Period		Post War Period		
	1913	1914	1918	1919	1923	1924	
Farm.....	12.3	13.9	6.7	9.0	19.1	22.5	213
City.....	4.8	4.9	7.2	7.8	9.5	8.9	1353
Village.....	4.9	5.0	4.6	4.8	8.0	8.2	133

county has been even less favorable to the farmers than has been true over the United States as a whole.

It is unfortunate that data are not available for a similar comparison for Missouri. The farm tax situation in a number of other respects, however, is very similar to that in surrounding states and in the generality of states, as will be shown in succeeding pages of this study. It is very probable, therefore, that Missouri farmers have been laboring under much the same relatively heavy tax burden that has been the lot of the farmers of Wisconsin and of the United States.

It is apparent from the foregoing that the farmers' tax position is not merely a temporary matter. Taxes are shifted, however, and no group can be kept permanently paying a disproportionately heavy tax. Eventually differences in incomes for the farmer as compared to other groups would bring about an adjustment provided no new developments made further displacements. Agriculture is notoriously slow to adapt itself to changes, however. Farmers are numerous, unorganized and none too well informed. Unaided, the process of adjustment probably would require decades and would be unnecessarily harsh.

Furthermore, much of the unfavorable character of the farmer's tax position can be traced to faulty tax systems. There is little evidence that tax systems, that of Missouri included, conform closely to the theory of ability to pay. Even less do these systems conform to that final criterion of excellence in taxation which would have taxes adjusted to effect the least harm and the most good to the economic progress of the commonwealth.

The general criticism of the present tax system made by the survey commission appointed by Governor Caulfield that it leans too heavily on real estate taxation is amply confirmed in the reports of numerous investigators in fields of both taxation and agricultural economics. Below is quoted the opinion of Dr. J. D. Black, who says:*

*J. D. Black, *Agricultural Reform in the United States*, p. 475.

"The methods of taxation used in most of the states at present are not adequate or satisfactory. Their principal defect is that they depend too largely upon the general property tax. This makes so heavy a burden upon real estate that the point is soon reached beyond which obtaining further revenues from this source is confiscatory in effect and a drag upon the improvement of private property and, in particular, a serious discouragement to home ownership."

TAXES AND CASH RENTS

In Missouri as in most other states the property tax is the mainstay of the revenue system. It provides in this state nearly all local revenue and a large part of that going to the state. While taxes in Missouri have not been as high as in many neighboring states there can be little doubt but that property values and particularly farm property values have in many cases been confiscated. There are a number of evidences to this effect. The first of these is to be discovered in the relation of taxes and cash rents on farms.

A Missouri study* published in 1926 contains the following table.

TABLE 3.—TAXES IN RELATION TO RENT OF FARM REAL ESTATE, NORTHWESTERN COUNTIES OF MISSOURI, 1913-1922

Year	Number of farms	Number of acres	Ave. tax per acre	Ave. rent per acre	Relation of taxes to cash rent
			<i>Dollars</i>	<i>Dollars</i>	<i>Per cent</i>
1913	21	4,328	.35	3.09	11.3
1914	25	4,955	.33	2.95	11.1
1915	29	5,987	.32	3.12	10.2
1916	37	6,933	.32	3.31	9.7
1917	49	8,867	.35	3.54	9.9
1918	58	10,299	.36	3.83	9.3
1919	86	14,279	.48	4.66	10.4
1920	103	17,724	.53	4.68	11.4
1921	141	23,231	.71	4.42	16.0
1922	206	33,403	.73	4.26	17.1

The ratio of taxes to cash rent was somewhat smaller from 1916-1919 than in the pre-war years, 1913 and 1914. There was, however, a sharp increase in the ratios after 1920 and an unmistakable tendency for taxes to appropriate a larger share of net rent after 1920 than before.

*Brannen, C. O. and Gromer, S. D., Taxation of Farms in Missouri. Agri. Exp. Station Research Bulletin 93, p. 7.

TABLE 4.—RELATION OF TAXES AND NET RENTS BEFORE DEDUCTING TAXES ON CASH RENTED FARMS IN IOWA 1913-1927

Year	Net rent per acre	Taxes per acre	Taxes as a per cent of net rent
	Dollars	Dollars	Per cent
1913	4.18	0.57	13.7
1914	4.58	0.66	14.4
1915	4.37	0.70	15.9
1918	5.28	0.85	16.0
1921	7.11	1.53	21.6
1922	5.15	1.70	32.9
1923	4.24	1.53	36.1
1926	4.90	1.36	27.7
1927	4.54	1.30	28.7

An Iowa** study which carries the analysis down to a more recent date shows an even greater increase in taxes in relation to net cash rents for the post-war years as in the table below. There is noticeable, however, in these Iowa figures, a small decline in taxes and in the ratios of taxes to net rents in 1926 and 1927 as compared to the years 1922 and 1923. This may or may not indicate a trend toward ratios more in keeping with the pre-war situation.

Investigations similar to those just quoted for Missouri and Iowa have been made in Michigan, Arkansas, Colorado, Indiana, North Dakota and others. In every instance there has been a great increase in the percentage of net cash rents appropriated by taxes after 1920. In this respect the condition in Missouri is a counterpart of that to be found in all or nearly all states in the Union.

However, may not the conditions on farms operated by their owners be quite different from those that are rented or leased? It is very difficult to separate farm incomes into that derived from labor and that from property so as to secure a property income commensurate with net cash rents. In fact the separation can be made only approximately.

A figure for property income fairly comparable to net rents is that secured by deducting from cash receipts plus value of food produced and used on the farm and net change in inventory, all cash outlay and the value of the labor of the owner and his family. The value of house rent should be included in income but is normally difficult to calculate as is also the change in the capital value of the farm. In the period since 1920 (though not before) with farm real estate values falling, taking account of changes in capital values would have tended to reduce incomes. Inasmuch as the inclusion of house rents would have had the

**Iowa State College, Extension Bulletin 150. Brindley, J. E. and Zorborough, Grace, S. M. "The Tax System of Iowa."

opposite tendency the two counteract one another in part. Also to secure a perfectly accurate figure for property income there should be deducted the return to the farmer for his management. Here again it is difficult to discover the exact value of the management since the returns to this function are so highly contingent. The value of the farmer's labor on the other hand may be judged reasonably well by the wages of hired men. The failure to include house rent in income then is counterbalanced by not deducting the return to management and after 1920 by taking no account of the decreases in capital value. Furthermore all owners are assumed to be full owners and no account is taken of interest payments.

The relation of taxes to net returns (calculated as above) on owner operated farms for certain counties for which farm management data were available are given below. The farms on which the data were collected were not all of the same type and, for Saline and Pettis county particularly, represent a far higher grade of farmer than is ordinarily encountered. Their net returns are unusually high for Missouri farmers. Nevertheless, during the post-war period the taxes on these owner-operated farms have been quite as high a percentage of net returns as they were of net rents as in Table 3.

TABLE 5.—TAXES AND NET RETURNS ON OWNER-OPERATED FARMS IN MISSOURI 1915-1927

Year	County	No. of farms	Net returns per farm before deducting taxes		Taxes		Tax as a per cent of net returns	
			Dollars		Dollars		Per cent	
1915	Dade } Saline }	143	813 } 1411 }	1185	44.5 } 114 }	88	5.5 } 8.1 }	7.4
1915		236						
1917								
1918								
1919	Saline	40	2997		159		5.3	
1920	Saline	14	6211		261		4.2	
1921	Saline	44	847		202		23.8	
1922	Pettis	32	2142		307		14.3	
1923	Pettis	33	2468		318		12.9	
1924								
1925								
1926								
1927	Boone	46	207		93		44.9	

Similar data for Iowa and Arkansas show much the same relation of taxes and net returns on owner operated farms in these two neighboring

TABLE 6.—TAXES AND NET RETURNS ON OWNER-OPERATED FARMS IN IOWA* 1913-1927

Year	Farms	Acres per farm	Net returns per farm before deducting taxes	Taxes per farm	Taxes in relation to net returns
			Dollars	Dollars	Per cent
1913	303	185	3,047	123	4.0
1914	168	153	2,100	116	5.5
1915	248	192	2,424	148	6.1
1916	74	158	3,101	122	3.9
1918	168	197	3,086	170	5.5
1921	109	195	646	336	52.0
1922	94	179	1,897	266	14.0
1923	194	153	1,396	265	19.0
1927	119	200	957	307	32.1

*See United States Department of Agriculture Technical Bulletin No. 172, page 39.

states as in Missouri. Indeed in Iowa in 1927 taxes appropriated nearly one-third of the net returns and in 1921 more than fifty per cent. The pre-war relationship between the two was much the same as in Missouri. There can be no doubt but that the post-war situation presents a drastic change over the pre-war in these two states.

Data are not available for pre-war years in Arkansas but in the table below the relation of taxes to net returns for the years 1922 to 1926 for that state are given.

TABLE 7.—TAXES AND NET RETURNS ON OWNER-OPERATED FARMS IN ARKANSAS 1922-1926

Year	Farms	Acres per farm	Net returns per farm before deducting taxes	Taxes per farm	Taxes in relation to net returns
			Dollars	Dollars	Per cent
1922	186	141	445	55	12.4
1923	495	174	333	75	22.5
1924	447	196	754	119	15.7
1925	383	186	739	93	12.6
1926	618	156	613	67	10.9
Ave.	426	171	577	82	14.2

Southern states, which include Arkansas, have not increased their public expenditures and hence taxes as rapidly as have those in the north and northeast unless during the immediate preceding years. Hence, the percentages as in Table 7 are not as great as those for Iowa. Nevertheless, the tax was never less than 10 per cent of net returns for the five year period on these Arkansas farms and averaged 14.2 per cent.

Data for Missouri are somewhat scattered and as in Iowa do not represent a continuous series. Nevertheless, much the same increases in taxes in relation to net farm returns is to be noted in Table 5 and in Table 6. Prior to 1921 the percentage of net returns taken in taxes ranged from 4.2 to 8.1 and beginning with 1921 from 12.9 to 44.9. In no case is the percentage during the period after 1921 less than 150 per cent of that of the previous period and the 1927 relation of tax to net returns in Boone county is 8 times that of 1915 in Dade. While the percentages for any single year can hardly be counted on to adequately represent the situation, the fact that there has been a drastic increase in the percentage of farmer's taxes for the period after 1921 as compared to the pre-war period, is incontestable.

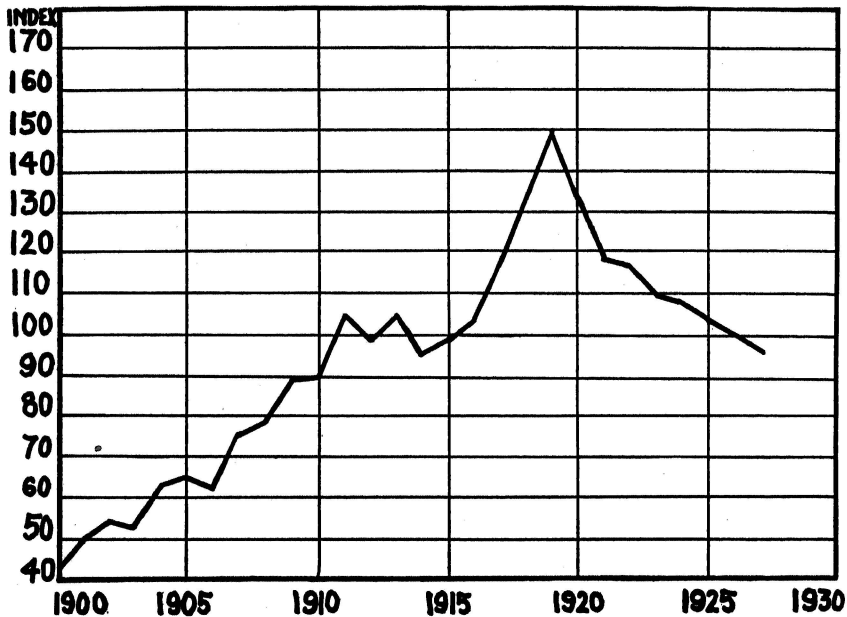


Fig. 2.—Index of Sales Value of Farm Real Estate—Missouri 1900-1928. 1910-1914=100. From 1900 to 1915 the index is based on sales in seven counties: Adair, Barton, Boone, Nodaway, Pike, Texas, and Webster. From 1915 to 1928 the sales in twelve additional counties were added. These twelve counties are, Butler, Cape Girardeau, Clark, Clinton, Johnson, Lincoln, Linn, New Madrid, Pettis, Phelps, Taney and Washington.

TAXES AND LAND VALUES

One of the results of the heavy increase in taxes has been a fall in land values, though it is true that tax increases are not alone the cause nor perhaps even a major cause in the decline. They have merely added a burden to a situation already strained by the decline in the farm products price level and the increase in the value of money generally.

While farm taxes rose from 100 in 1914 to 263 in 1928 farm real estate values, as in Figure 2, first rose, in Missouri, from 100, as a 1910 to '14 level, to 149 and then fell to 96 or a point below pre-war (1910-1914) values. In other words while farm real estate values were, in 1928, back to or below a pre-war level, taxes were more than two and one-half times as great as in 1914.

Any such great change in values as that taking place in Missouri farm real estate greatly affects the distribution of wealth. Farmers as the chief owners of rural real estate in Missouri were in a position to make considerable gains during the persistent rise in land values to 1920. While some gains were doubtless realized the very uniformity of the rise ultimately led farmers to capitalize their anticipations. That is, instead of paying for land a figure that would have represented a capitalization of its present earning power at a rate of five or six per cent, farmers were paying far higher figures on the assumption that the increases in values would continue. For those that had purchased before or shortly after 1900 and sold during the war period there was a great gain merely from the increase in land values. For those purchasing at a later period, after full payment was exacted for the anticipated increases in values, the gain was less. In many cases what appears as a great gain in land values had thus been paid for in advance. Nevertheless there was undoubtedly, prior to 1920, much wealth accruing to farmers merely because of a rise in land values rather than because of any effort on their part. That is, the values of land rose largely because of increasing demand and consequent higher prices of farm products. Farmers may exert little or no control over these demand factors.

After 1920, with taxes mounting and prices of farm products falling more rapidly than the wholesale price index, there was a drastic change in the land or farm real estate situation. Farmers have been heavy losers during the decade which has seen the values of their farms fall to a level below their immediate pre-war (1910 to 1914) figure. The fall has been made even more drastic because of the exaggerated prices paid during war years based on the ill-founded optimism that predicated a continued rise of real estate values. Net land rents which were capitalized into land values at a rate of about 2 to 4 per cent are now being capitalized at from 5 to 6 per cent.* This tendency to increase the capitalization rates is illustrated clearly in the table below.

These rents are gross rents and the ratios of rents to values higher than if net rents had been used. Unfortunately data for 1920 and preceding years are not available in comparable form for the state as a whole.

*If net land rent is \$5 per acre and this is capitalized at $2\frac{1}{2}$ per cent the value of the land is found to be \$200, i. e. $\$5.00/.025 = \200 . When the capitalization rate is raised to 5 per cent the land value shrinks to \$100 i. e., $\$5/5 = \100 .

TABLE 8.—GROSS CASH RENTS AND LAND VALUES IN MISSOURI 1921 TO 1929*

Year	Gross Cash Rents	Value of Rented Land	Ratio of Rents to Value
	Dollars	Dollars	Per cent
1921	6.00	104	5.77
1922	4.60	80	5.75
1923	4.50	80	5.62
1924	4.50	74	6.08
1925	4.50	70	6.43
1926	4.15	67	6.19
1927	4.00	64	6.25
1928	4.14	61	6.79
1929	4.06	59	6.88

*From unpublished data of the United States Crops Reporting Service: E. A. Logan, Statistician, Columbia, Mo.

The increase in the capitalization rate over the 9-year period is apparent. The ratios of gross cash rents to values increased from 5.77 per cent in 1921 to 6.88 per cent in 1929.

TAX DELINQUENCY

It is easy, however, to over-estimate the role of tax increases in the confiscation of land values that has been going on since 1920. Changed demand and supply and price relationships have probably played a major role though taxes have had their part.

A more exact measurement of the effect of taxes is to be had in the figures for property tax delinquency. A certain amount of delinquency is normal just as a certain volume of bad debts is common in business. No county collects 100 per cent of its taxes each year. No tax system would entirely eliminate delinquency, for a certain amount of the neglect or failure to pay taxes results from faults of the tax paying public rather than of the tax system. Wholesale delinquencies of taxes on property, on the other hand, indicate plainly that the tax is attempting to appropriate returns that are not accruing to the property owner from the taxed property.

There is also, in a growing volume of delinquency, evidence of inequity and a lack of responsiveness on the part, particularly of assessments, to new value situations.

Data showing the tax delinquency by counties for all taxes are not available but in the State Auditor's annual reports are given the percentages of state taxes collected. The state property tax is uniformly a fixed part of the total tax for all purposes. Except in isolated instances where permission has been given to pay a school tax without paying

other taxes, each tax dollar received is divided up according to the rates for the various state and local purposes. Failure to pay taxes results, hence, in a delinquency of both state and local taxes in a fixed proportion: that is in proportion to the rates for state and local purposes. Hence, a delinquency of 10 per cent of taxes for local purposes would be accompanied by a 10 per cent delinquency for state purposes and vice versa. For this reason the delinquency of state taxes as indicated by the percentage of the state taxes uncollected and unpaid means an equal proportionate delinquency for local purposes.

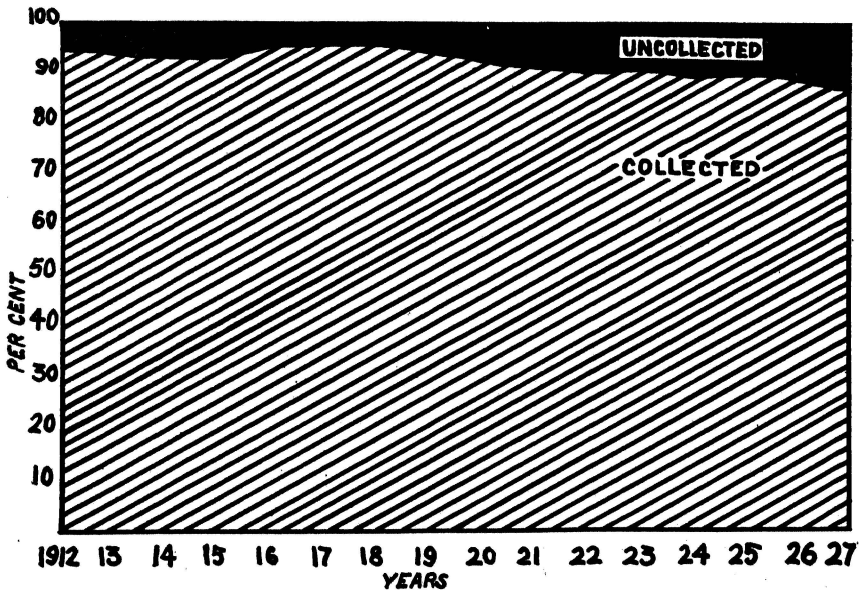


Fig. 3.—Percentage of Current State Taxes Collected and Uncollected—Missouri—1912-27. From the annual reports of the State Auditor.

Figure 3 gives the percentage of Missouri state taxes* collected and uncollected for the years 1912 to 1927 in twelve† Missouri counties chosen as representative of twelve types of farming areas into which the state has been formally divided.‡ No attempt to weight the percentages was made, simple averages being sufficient for present purposes. It may be inferred that percentages of local taxes uncollected were almost exactly the same as for these state taxes.

*Includes income as well as property taxes, but the delinquent income taxes are so small in amount as to be negligible.

†These counties are Atchison, Harrison, Sullivan, Monroe, Johnson, Barton, Newton, Reynolds, Franklin, New Madrid, Webster and Miller. One type of farming area comprising St. Charles and St. Louis counties is not represented in this list largely because of its suburban character.

‡Unpublished manuscript, Type of Farming Areas in Missouri

Apparently during pre-war years the normal current delinquency was about 5 per cent for the twelve counties. This decreased to four per cent in 1917 but the percentages of taxes uncollected at the end of each year rose steadily from 1918 on and in 1927 was nearly 12 per cent or three times the 1917 figure and more than twice a pre-war normal of 5 per cent.

The situation in Boone county, for which the figures of tax delinquency for the local levies are available, is much the same as for the average of the twelve counties above. The percentage of taxes uncollected at the end of each year was somewhat greater than the average for the twelve counties but the increase in uncollected taxes after 1920 as compared to pre-war years is unmistakable. In 1929 a sixth of the taxes remained uncollected.

TABLE 9.—DELINQUENT PROPERTY TAXES AND RELATION TO TOTAL LEVY IN BOONE COUNTY 1919 TO 1929

Year of Levy	Year of Collection	Total Tax	Delinquent Tax	Per cent Delinquent
		Dollars	Dollars	Per cent
1918	1919	342,603.17	22,563.43	6.59
1919	1920	417,322.41	36,755.80	8.81
1920	1921	544,034.45	55,522.15	10.21
1922	1923	483,374.51	54,096.40	11.19
1923	1924	511,361.37	61,573.76	12.04
1924	1925	521,687.69	75,804.45	14.53
1925	1926	506,254.43	69,471.23	13.72
1926	1927	565,330.06	73,279.14	12.96
1927	1928	544,751.94	68,692.27	12.61
1928	1929	579,031.66	96,606.18	16.68

It is impossible to divide the delinquency up into that upon rural and urban property. The twelve counties, and indeed Boone county, are dominantly rural, however, and delinquency even in the towns in such counties doubtless develops in part at least out of the agricultural depression. When the buying power of agricultural products is reduced for any reason, the business and, hence, values in the towns serving agriculture suffers. Hence, the delinquency, in Boone county and doubtless for the entire state, grows to some extent out of the depression in agriculture.

There are some facts of importance to be derived from a glance at the regional distribution of delinquency. From the data on the percentage of state taxes collected in 1928 for the 1927 levy the map below has been constructed. As has been stated above, these figures of delinquency of state taxes are also fairly representative of local conditions.

North of the Missouri River and on the plains region south of Kansas City nearly all counties collected 90 per cent or more of their total state taxes. In the Ozark regions the delinquency is much greater and few counties collect as much as 90 per cent of the total. In both Camden and Carter counties only a little more than three quarters of the total levy was collected. The situation in Southeast Missouri is somewhat different and grows in part at least out of the heavy special assessments contingent upon the drainage developments in that region. The heavy tax delinquency in this part of the state is, hence, partly local in character. Such is not the case in the Ozark Region, however. The delinquency in the highlands region illustrates the irresponsiveness of the property tax assessment system. Much of this land is marginal or near marginal for agriculture and is of little use for forestry. In large part it has been bereft of sales value since 1920. Often little or no income has ever been received from it and in periods of depression its failure to pay taxes is not surprising.

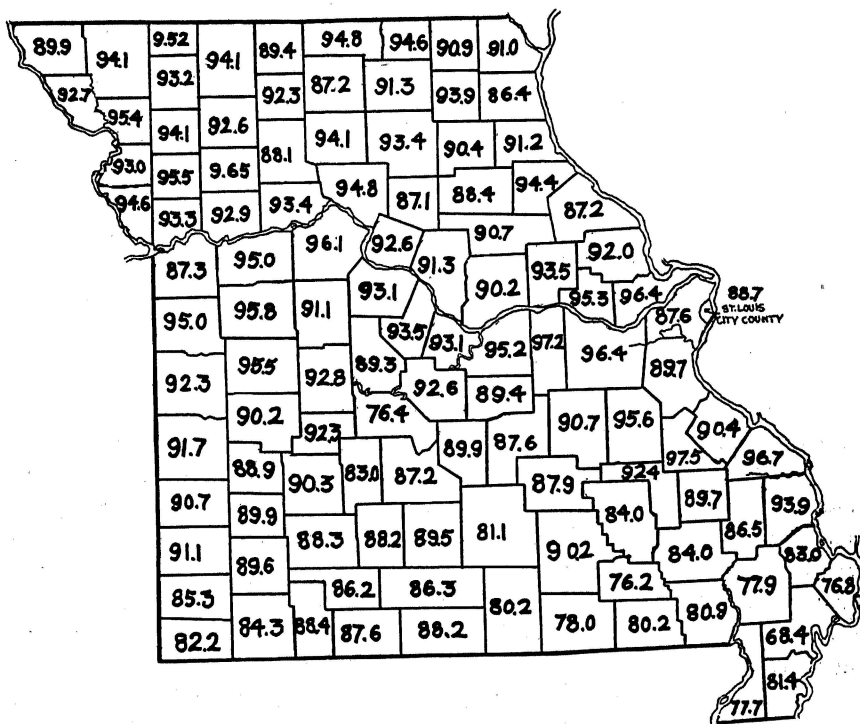


Fig. 4.—Percentage of State Taxes Collected—1927 Levy.

The situation pictured here for Missouri, Figure 4, of a greater volume of delinquency in the poorer agricultural regions of the common-

wealth, has been discovered to be true in a number of states. Thus in the cut-over regions of Minnesota, a region containing large acreages of undeveloped stony and sandy lands, the delinquency was found by the Forest Taxation Inquiry* to be excessive. The figures are given in the table below and speak for themselves. It is very probable that the tax delinquency in Ozark counties of Missouri is much like that of certain of these Minnesota counties, though hardly as extreme as that in Beltrami or Koochiching counties where ill-advised drainage of peat swamps accounts for much of the trouble.

TABLE 10.—TAX DELINQUENCY IN SEVEN MINNESOTA COUNTIES—1926

County	Total Delinquent Acreage (Current and Unredeemable)		Absolute Unredeemable Delinquency*
	<i>Per Cent Total Area</i>	<i>Per Cent Taxable Area</i>	<i>Per Cent Taxable Area</i>
Beltrami	40.52	52.16	26.10
Cass	22.44	27.98	13.13
Hubbard	29.89	30.63	5.72
Itasca	22.09	28.36	8.60
Koochiching	21.91	41.78	19.57
Lake	16.84	26.73	9.29
St. Louis	10.33	12.51	4.87

*Delinquent for such a period that title passes to the state

A Wisconsin area very similar to that just referred to in Minnesota finds itself confronted with much the same problem. The National Industrial Conference Board in a study** of delinquency makes this statement regarding the cut-over region of that state. "In 27 Northern counties, in which forest and cut-over lands play an important role or in which the soil is largely sandy or unproductive for ordinary cultivation, it is found that the percentage of tax delinquency is from three to four times as high as in the remainder of the state."

"In 1923, five out of the 27 counties had a tax delinquency of over 20%, viz., Bayfield, Oneida, Rusk, Sawyer and Washburn, and nine counties showed from 10% to 20% delinquency, viz., Ashland, Burnett, Douglas, Forest, Iron, Marinette, Price, Taylor and Vilas."

In both Minnesota and Wisconsin as in Missouri much of the delinquency is on other types of rural property rather than merely on farm real estate. In the two northern states, indeed, the delinquency is greatest on the cut-over unfarmed acreages. Nevertheless the con-

*Fairchild, F. R. and Chapman, H. H. Forest Taxation in a Cut-over Region. Forest Taxation Inquiry, 360 Prospect Street, New Haven, Connecticut. See page 17.

**The Tax Problem in Wisconsin. National Industrial Conference Board, p. 149.

***R. Wayne Newton. Taxes on Michigan's Rented Farms. Michigan State College Technical Bulletin No. 91.

dition even on lands that are farmed has in many instances become serious, as is depicted in the table below which is drawn from a Michigan study.*** The basis of the statement that more than a few land owners over the United States have been making lately, that their land no longer has any value, is contained in this table. Even as a seven-year average the tax appropriated 92 per cent of the rent in a situation where it apparently took only 37.5% in 1919 and in earlier years doubtless much less. The counties from which these figures were obtained are in the northern part of the lower peninsula of Michigan and in a region from which the timber was cut not many years previous. In no other part of Lower Michigan was the situation as extreme as in these seven northern counties. It is unlikely that so extreme a situation exists or has existed anywhere in Missouri unless in the Southeast Lowlands.

TABLE 11.—RELATION OF TAXES TO NET RENTS ON FARMS SURVEYED IN EMMET, CHARLEVOIX, ANTRIM, LEELANAU, GRAND TRAVERSE, BENZIE, AND MANISTEE COUNTIES, 1919-1925

Year	No. of farms	No. of acres	Gross rent per acre	Net rent per acre (before paying taxes)	Tax per acre	Per cent of net rent paid in taxes (before deducting taxes)
			Dollars	Dollars	Dollars	Per cent
1919	24	2,674	3.63	2.00	0.75	37.5
1920	14	1,134	2.42	.90	1.03	114.4
1921	18	1,585	2.14	.79	.95	120.3
1922	33	3,526	1.91	.57	.87	152.6
1923	26	2,016	2.12	.77	1.02	132.5
1924	28	2,215	2.30	1.05	.91	86.7
1925	44	4,503	2.42	.93	.88	94.6
Seven year average---			\$2.42	\$1.00	\$0.92	92.0

THE FARMER AS A TAX PAYER

There are evidences that the farmer pays a larger part of his income in taxes than do other classes of society. (See pages 3 to 7.) May not farmers, however, because of large property holdings, or because much of their property is land, be taxed legitimately at a level somewhat greater than that exacted from others? It is commonly conceded that the man who owns and receives an income from property may be taxed somewhat more heavily than a man whose income results from his labor alone. Is the average person on farm associated with greater property values than for the country at large? From the census of 1925 the value of property per person engaged in farming may readily be calculated

TABLE 12.—PER CAPITA WEALTH (1922) AND FARM PROPERTY VALUES PER PERSON ENGAGED IN AGRICULTURE (1925) IN UNITED STATES AND MISSOURI*

	United States	Missouri
Per Capita Wealth (1922)	\$2,918	\$2,903
Farm Property per Person Engaged in Farming (1925)	1,967	2,090
Per Capita Value of Real Estate (1922)	2,368	2,236
Farm Real Estate Values per Person Engaged in Farming (1925)	1,707	1,831

*Because figures for the same year were not available it was necessary to take per capita wealth figures for 1922 and figures on farm property as of 1925. The price levels for these two years were not greatly different, however, (see Figure 1). Indeed with the upward trend in wealth per capita and the downward trend in farm real estate values, the farm wealth would have been placed in a still poorer relative position had both sets of data been as of 1925.

and the Census of Wealth, Debt and Taxation for 1922 gives the per capita wealth in the United States and in Missouri.

The value of property per person on farms was nearly \$1000 less than per capita wealth both for the United States and for the State of Missouri. Had it been possible to contrast the wealth of other classes excluding farmers to that of farmers as a class the differences would have been still greater. It must be admitted that the comparison is not entirely valid since farmers own property in villages and cities and urban classes own farm property. It is quite probable, however, that, could account have been taken of these facts, the discrepancies in the wealth figures would have been even larger than they are. In other words the urban ownership of farm property is probably much greater than the farm ownership of urban property.

Thus, while these measures of per capita wealth do not afford entirely adequate bases for portraying the added ability to bear taxes because of property ownership, they emphatically afford no justification for taxing the farm population at a rate, in relation to income, greater than that borne by other classes.

Because land is in part a costless element of production, society has a peculiar claim to the income from land. To the extent that such claim exists land may be taxed and the tax counted as a mere appropriation of income that results not because of the owner's labor or capital but merely from the presence of society. This is peculiarly true with regard to that part of land value that results from space and site. Because of this circumstance land may be legitimately taxed at a rate considerably higher than that applied to other types of property. Where a

classified tax system is used this fact is commonly and rightly given some weight. May, then, the present excessive tax on farmers be justified because they hold a preponderate share of the land of the United States?

It was to obtain a suggestion as to the answer to this question that the last two sets of figures were included in Table 12. It is apparent from this table that the per capita value of real estate is greater than the value of farm real estate per person engaged in agriculture. Unfortunately the values for land alone could not be secured, and improvements doubtless constitute a larger proportion of total value in cities than on farms. However, two facts so far omitted from the discussion tend to compensate for the greater values of improvements in cities. First, no account is taken of farm mortgage indebtedness which in 1925 was 44.1 per cent of the total value of farm real estate on owner operated farms in the United States and 44.6 per cent in Missouri. There is little doubt but that by far the greater share of this debt is held by people who live in cities and villages. It is true also that city and village people own many if not a majority of the rented farms which in 1925 constituted 28.7 per cent of the total farm area in United States and 29.3 per cent in Missouri. Secondly, there is no doubt but that the space and situation elements in urban and village land values are a far greater proportion of total land values than is true of the farm land. Whole great areas of farm lands have been cut from the forest, still greater areas have been cleared of stones, another great area has been drained. Such improvements are in effect man made and while inseparable from the land and, hence, unavoidably entering into land values, are really to be counted as a part of physical capital rather than land.

Taking account of these two considerations, then, it is quite possible that space and situation land values in cities are larger per capita than the same values of farm land per person in agriculture. There is at least little evidence on the other side of the question to justify a relatively greater tax burden for farm people than for other classes.

FARM TAXES AND THE FARMER'S ABILITY TO PAY

Neither is ability to pay, an entirely adequate theory of taxation nor are comparisons of incomes of farmers and non-farm groups of the population more than roughly indicative. Nevertheless, no foundations for taxing farm groups at a rate in excess of that of other groups can be found in such comparisons.

The National Bureau of Economic Research, The National Industrial Conference Board and The Federal Trade Commission all working independently of one another have found the per capita farm income to be below that of urban groups both for the United States and Missouri.

In the table below are given the per capita incomes of farmer and non-farm groups for 1919, 1920 and 1921 as calculated by the National Bureau of Economic Research. These figures are estimates and subject to error. While not entirely acceptable they afford no basis for supposing that agricultural incomes were not at least somewhat lower than those of other groups during the three year period. Other similar analyses show much the same situation.

TABLE 13.—PER CAPITA FARM AND NON-FARM INCOMES IN THE UNITED STATES AND MISSOURI 1919, 1920, 1921

Year	United States		Missouri	
	Non-Farm	Farm	Non-Farm	Farm
1919	\$723	\$362	\$670	\$324
1920	816	298	771	228
1921	701	186	708	124

FARM TAXES AND BENEFITS

It is often stated that farm taxes are high merely because farmers make them so. The chief tax burdens evolve out of the local taxes and these are voted by the farmers themselves. If the farmers were not getting a benefit commensurate with outlay they would, it is averred, quickly put an end to excessive local expenditures. Hence, high farm taxes are the result merely of the farmer's willingness to tax himself and are an expression of benefits received.

This is, however, an exceedingly narrow and in many respects pernicious view. Neither is the pressure to vote taxes an entirely intra-community affair nor is there any assurance that benefits from the heavy farm taxes are greater than those derived from a lesser burden in the cities.

To take these up singly there is first the fact that much legislative pressure is put upon the local community to force it into line in the education of children. Minimum standards are set. The community must meet such standards or forego its share of state school moneys or state aid funds. There are a number of such provisions affecting the distribution of the state school funds in Missouri.* In the case of roads similar stipulations are often made. Farm communities have too often found themselves forced to support a county road building program of great cost and of only moderate benefit to them. County roads are almost invariably routed to connect towns rather than in such a way as

*See page 220, *State School Taxes and School Funds and Their Apportionment*. Swift and Zimmerman. United States Department of Interior Bureau of Education Bulletin No. 29, 1928.

to be of maximum benefit to the farming community. "Traffic on the rural highway system is predominantly that of city-owned passenger cars and motor trucks" says Dr. McKay of the Bureau of Public Roads.* Gasoline and automobile taxation have done much to alleviate this tax situation of late, however, and bid fair in time to completely rectify it.

Legislative pressure is by no means the only force urging the farmers to increase tax rates. Educational progress in cities and even in small towns has far transcended that in the rural communities. The fact of distance and the common fact of small tributary property valuations and few tax payers among which to share the cost of schools have placed a tremendous handicap on the development of rural as compared to urban schools and education. Costs of maintaining schools which would permit the same division of labor among teachers, the same physical equipment and same general quality of excellence as are commonly encountered in cities would bankrupt most rural communities in short order. Yet farmers are well aware that their children must sell their labor in the same market in later life as the city children who have had far greater school advantages. In an age of such intense specialization as the present, when common labor can scarce command a living while the highly trained find numerous demands for their services and excellent pay awaiting them, schooling during childhood is of vital importance.

There is an apparent movement on the part of various states to accept the education of children as mainly a responsibility of the state rather than the local community. There are many difficulties in application, however, and the inertia of established practices to overcome. The movement gains ground very slowly. In the meantime farmers in many, though not all communities, find themselves paying heavy school taxes to give their children a schooling they recognize as inadequate but which is bought with an excessive rate of taxation.

As for the benefits derived from the taxes: who can give an adequate account of the recipients of the benefits from education? People, perhaps more commonly than not, receive their schooling in one community and spend the major part of their working lives in another. Agriculture is peculiarly discriminated against by a system that assesses the greater part of the costs of education against the local community. Farm populations normally afford a surplus of young people who leave the farm during the prime of life, after the costs of their early education have been met, and move to the cities. From 1910 to 1929 the net movement of farm people to cities is estimated by the United States Department of Agriculture to have been 4,223,000. Most of the costs

*See note, page 475, Agricultural Reform in United States, by J. D. Black.

of educating these people have fallen on the shoulders of the farm population. Yet it is in the city that they labor during their most productive years.

ANALYSIS OF SPECIFIC PROPOSALS OF THE SURVEY COMMISSION

Recommendations made by the Survey Commission as printed in the bulletin presented to the governor as part of their report are as given below:

"Our suggestions for changes in the state's system of taxation are summarized very briefly in the following paragraphs which take up each tax or class of taxes in turn.

As to the General Property Tax:

In order to correct the most serious faults of the property tax and to reduce excessive and inequitable tax burdens, five remedies are believed to be desirable. They are:

- (1) The removal of the four state levies, 13 cents in all.
- (2) The granting of state aid for education and possibly other vital local government activities on a basis which recognizes the difference in tax-paying ability of the various sections of the state and the practical impossibility in certain localities of meeting with unaided local resources even the lowest standards in education and other government functions.
- (3) The exemption of intangibles, such as bonds, notes, mortgages, and other credits, from property tax and reaching the net income from these forms of wealth through a graduated income tax.
- (4) The radical revision of the law and the procedure having to do with property assessment.
- (5) The revision of the law governing the setting of tax rates and tax limits.

The removal of the state tax levies on property involves a total amount of \$6,400,000. Owing to the heavy charges which the state must bear to restore and enlarge the plant of its institutions, it is recognized that it may not be practicable to take this step at once.

As to the procedure for the assessment of tangible property, attention is called to a summary of suggested measures which appears in the chapter of property taxation in the accompanying report.

As to the Inheritance Tax:

No changes in the inheritance tax are proposed except the transfer of the entire administration to the state treasurer or tax department if one is created. It is assumed that the Attorney General would continue to assist in the administration.

As to the Income Tax:

Increases in rates and a graduated scale of rates of income taxation are proposed as well as radical revision of the administrative features of the tax. These measures are clearly the most important of all from the point of view of adding to the state tax revenue in a manner consistent with principles of justice and sound tax theory.

As to Consumption or Luxury Taxes:

As a means to make practicable the reduction of the property tax and to supplement the increased income tax by taxes with a wider base, the taxation of the consumption of certain articles of the luxury type is recommended. It is proposed that the state impose a tobacco sales tax, a tax upon bottled and other soft drinks, and a tax upon admissions. As to Special Business Taxes:

The proposed scheme of taxation contemplates that businesses pay a greater state income tax, and it is consequently not proposed to increase materially any other business taxes. But as to the taxation of mines and insurance companies, the following special recommendations are made:

(1) That mine properties be assessed by the Tax Commission (or that a very moderate severance tax be imposed).

(2) That the insurance tax on gross premiums apply to premiums of both domestic and foreign companies.

As to Motor Vehicle Taxes (Motor Vehicle Licenses and the Gasoline Tax):

An increase in both motor vehicle licenses and gasoline tax is proposed but the resulting additional revenue is not assumed to be available to meet any part of the financial program outlined in the Commission's recommendations except perhaps beginning in 1938 when the constitutional prohibition of an increase in rates ceases.

THE GENERAL PROPERTY AND INCOME TAXES

On the whole the Missouri farmer will find himself pleased with the proposals accepted and printed by the Survey Commission as a part of their report to the Governor. It has long since been recognized that property ownership is a poor measure of ability to pay taxes. So far as ability to pay is a proper criterion of taxation it should be judged by income rather than property. Any move to recognize this principle should find hearty support among property owners generally.

The proposals of the commission aim at a smaller dependence upon property taxation and a larger dependence on the taxation of incomes. Further they would do away with the state levy on property and hence with the very troublesome problem of equalization. It is recommended also that the tax on intangibles, which is almost completely evaded,

be done away with entirely and that the badly needed revision of the assessment law be made immediately.

The survey commission recommendations regarding the property tax are closely similar to those contained in the Report of the Business Men's Commission on Agriculture published in 1927 jointly by the National Industrial Conference Board and the Chamber of Commerce of the United States. The suggestions of this report for needed tax revision in the United States in the interests of reducing an excessive burden of taxation on the farmers has been summarized as follows:

“. the commission suggests that the farmers be relieved of their excessive burden by levying the general property tax for local purposes only, the state revenues being obtained from income, excise and business taxes, by granting a larger apportionment of state aid for education in rural districts; and, possibly by substituting a straight land tax with a light tax on improvements in the place of the general property tax.”

The agreement between the proposals of the two commissions is signal and noteworthy. There is a difference in the proposals for changing the property tax, however, that is significant. The survey commission advocates a mere reduction in property taxation. The Business Men's Report would change the form of this tax in part and would have this change apply to local as well as state taxes. Their specific suggestion is quoted below.*

“About the only practical alternative to the general property tax in the raising of local revenues would be a straight land tax. A straight land tax would have some advantages, and, if coupled with a state income tax, might well provide a considerably better system than that now prevailing. It would, if properly applied, recognize the true character of the general property tax, namely, that, in effect it is a specialized property tax on real property. Improvements on or in the land might well be taxed relatively lightly and the site value in consequence somewhat more heavily. Such a system would tend to retard such enhancement of land values as issues solely from increasing scarcity relative to demand. This would make no difference to present owners other than a light shifting of the burden from those farmers whose land is of little value relative to the improvements thereon to those for whom the converse is the case; but it would make the acquisition of land by young farmers in the future an easier task and would tend to diminish the force of the growing tendency toward tenancy. By taxing relatively lightly improvements in the land a stimulus would be given to conservative culture rather than to soil robbery.”

The Business Men's suggestions may well be given serious attention. Neither increases nor decreases in land values are desirable from a

social point of view. Both result in a redistribution of wealth entirely apart from a productive contribution on the one hand, or a failure to contribute on the other hand, of the individual owning the land. It is true that there were gains to the farmer group through the rises in land values prior to 1920. Who can say, however, that these gains have not been more than destroyed by the losses because of the fall in land values after 1920? The use of taxation to stabilize land values should be considered desirable by the farming class. Most farmers will agree that their incomes should come to them because of their ability to produce, and not merely or largely because of increases in the value of land. This is, of course, equally true for other classes of society.

The Business Men's suggestion has also the advantage that it would apply to the local as well as the state taxes. The chief burden of farm taxation is local. Wiping out state property tax lines would aid considerably. The improvement of the system of levying local taxes would be an additional step in advance.

It appears then that a reduction of property taxation that takes the form of leaving land taxes at their present level and reducing the taxes on improvements accomplishes the same result in a better way than would be accomplished by a direct reduction of the taxes on all property. It would be necessary, to introduce this system in Missouri, to change the assessment laws which do not at present call for the assessment of improvements separately from the land. It would also be necessary to introduce a classified property tax system. Classification of property for taxes is employed in many states.

There is a further reason for granting the farmers respite from taxation of improvements. The proposals of the Survey Commission include the suggestion that taxation of intangibles be dropped and that income from these sources be reached through income taxes. This is an excellent proposal since it does away with the double taxation and the pernicious tax evasion incumbent upon such taxation. Without doubt practically all such property has been owned in cities since farmers commonly invest their surpluses in improvements of their own plant or in additional land. Cutting out the tax on intangibles then relieves taxes on city owned property far more than on farmer owned property. The matter is not a large one since so much of the value of intangibles evades taxation. Nevertheless, the effect that is realized is to reduce taxes in cities as compared to farms. The farmers may well ask a compensating reduction of taxes on their own investments in part similar to the city man's intangibles, i. e., farm improvements.

One small item of caution in divorcing state revenues from property tax sources is relevant. There is apparent particularly in the matter of financing both education and road building a trend to put an increasing

load upon the shoulders of the state as compared to the local community. The tax base for these services is being broadened. There is even a tendency in certain states to transfer some of the functions of policing to the state. The proposals of the survey commission are obviously in keeping with this tendency particularly in the matter of education. In the main the move is excellent.

However, a conflict arises in at once extending the authority and functions of the state and at the same time cutting it off from a source of revenue. Other revenue sources can doubtless be made adequate. There are, however, some sound theoretical reasons for allowing property to bear a share of these burdens though a smaller share than at present. In many cases property benefits freely from the performance of such services.

CONSUMPTION TAXES

While the consumption taxes are at times a practical and expedient means of raising revenue they may not meet with a particularly favorable reception at the hands of the farmers. These taxes are regressive and rest more heavily on the shoulders of the poor than the rich. An equal expenditure for tobacco, beverages and theatre admissions is a higher percentage of small than a large income. Farmers as a class have not been among the receivers of large incomes and the imposition of these consumption taxes would almost inevitably result in their paying in proportion to their income, a relatively higher tax than many if not most other classes of income receivers.

A further objection to the consumption taxes is the fact that it is impossible to tell who does pay them and how they are apportioned among tax payers save in a very general way. They are indirect taxes, and intelligence in taxation aims to avoid such taxation. It is argued that even if such taxes are regressive that they only act as a balance to the progressive taxation of incomes. This reasoning, however, is misleading. The progressive taxation of incomes proceeds from the sound theory that high or large incomes may be taxed at a rate or percentage above that applied to the smaller incomes. Ability to pay taxes increases more rapidly than income. It is in recognition of this principle that income tax rates are higher for the larger incomes than the smaller. Why, then, destroy the result sought by imposing consumption taxes that are admittedly regressive?

Furthermore, there are a great number of taxes that are already regressive. Tariffs and duties are essentially indirect taxes heavily regressive in the case of sugar and many other articles of consumption on which they are placed. Even the general property tax as administered, is often highly regressive and falls very heavily on the shoulders of the poorer property owner.

SUMMARY AND CONCLUSIONS

(1) While the prices of farm products in 1928 were only 26 per cent above the 1914 level and actually lower in relation to the general wholesale price level in 1928 than in 1914, taxes on farm property were in 1928 about two and one-half times their 1914 level.

(2) Relative burdens of taxation can be measured only approximately, but data that can be quoted show that farmers' taxes in relation to farmers' income are greater than city people's taxes in relation to their incomes. This is true for both pre-war and post-war periods.

(3) The increase of taxes in relation to net cash rents and net farm returns has been such as to confiscate property values.

(4) Evidences of this confiscatory effect is found in rapidly falling real estate values in Missouri.

(5) Further evidences of this confiscation are found in the growth of property tax delinquency which is common to most if not all Missouri counties.

(6) Excessive farm tax burdens cannot be justified on the basis that farmers own more property and more land than other classes. Indeed there are evidences that farmers own less of both general wealth and land per capita than is owned by the average citizen of the United States and Missouri.

(7) From the standpoint of ability to pay, what income figures are available, show farm per capita incomes as less than those for other classes in both United States and in Missouri.

(8) Excessive farm tax burdens cannot be condoned because of benefits received. Farmers are forced to maintain high levels of public expenditures by acts of legislature and by numerous circumstances entirely beyond their control. This is particularly true with regard to education.

(9) Generally the proposals of the Survey Commission are such that farmers should accord them their hearty support.

(10) The broad purposes of the proposals are a greater dependence upon taxation of incomes and a lesser dependence upon property taxation.