Taxation in Relation to Population Shifts and the Changing Demand for Services

By Byron L. Johnson

Since the tax problem is nation-wide, not confined to agriculture, I will deal with it in those terms.

POPULATION SHIFTS

Starting with an analysis of the population shifts, I find at least four discernible trends relevant to our review today.

1. We can see that more than 4 million children are being born each year and that the population is increasing at a net rate of 2.8 million per year. We have climbed from a nation of 151 million at the time of the last census to more than 165 million today, or a growth of 14 million persons in five years (that is almost as many as the number living in New York State in 1950). And the growth continues.

2. The labor force is being transformed. In sheer numbers, the labor force is now growing by only some 800,000 per year. But with the war babies soon coming of age, it will grow by something nearer 1,200,000 per year in the years ahead, especially after 1960.

The labor force is being transformed by a further drift from the farm. The civilian labor force employed in agriculture in 1934 was 9,900,000 out of 52,490,000, or 19 percent. In 1944, agriculture needed 8,950,000 out of 66,040,000, or 13.5 percent. And in 1954, only 6,504,000, or 9.6 percent out of a labor force of 67,818,000, were directly employed in agriculture.

Mechanization is taking workers off of the farm and giving more of them jobs in the cities. The labor force includes a higher proportion of skilled and semi-skilled workers and fewer unskilled workers. The wealthier city dweller is having just as much trouble finding a maid or chauffeur as the farmer is having in keeping farm hands.

Into this joyous picture one other note of gloom must be injected, and that is the matter of "depressed areas." The Bureau of Labor Statistics' July 1955 classification of labor supply areas for major areas showed no areas of critical shortage, and 29 areas of "balanced labor supply," meaning from 1.5 to 2.9 percent unemployment. The number of major areas with higher unemployment was as follows:

Number of Major Areas	Amount of Unemployment
89	3 to 5.9 percent
19	6 to 8.9 percent
5	9 to 11.9 percent
7	12 percent or more

In addition, 103 smaller areas were listed as having "substantial labor surplus." For these communities, no great enjoyment is arising from the present levels of economic activity.

Some farm areas, of course, also share this feeling of depression. In some cases, it arises because of peculiar weather conditions (we have been having serious drought and dust-bowl conditions in parts of eastern Colorado, and western Kansas, as well as in areas both north and south of these "dry plains") . Other areas have been hit by too much water and sometimes by high winds. The decline in certain farm prices has hurt in some areas.

The Balance Sheet of Agriculture in the August 1955 Federal Reserve Bulletin, shows that the realized net income of farm operators in 1954 was just under 12 billion dollars, down from 16 billion dollars in 1951, and from 14.3 billion dollars in 1952. The estimated annual rate in the second quarter of this year as shown in the Federal Reserve Bulletin was only 11 billion dollars. This suggests that there is a different mood about the expansion and growth in some of the rural areas than in our boom cities.

3. Suburbanization is a highly visible trend in our population. We are witnessing a mushroom growth around cities, and the springing up of new towns near these cities, that exceeds in total anything known heretofore. While our cities have often mushroomed in numbers, never have they spread over so much territory so fast, in so many places at once.

The auto age, with over 58 million vehicles now registered compared with about 31 million at the end of the war, has brought the suburb into its own. We have, in my county, suburbs growing onto suburbs of suburbs of Denver — the heart city. The large project builder sometimes gives form and logic to the patterns, but more often than not they grow like Topsy, without coherent plan nor adequate concern for tomorrow.

4. Age is the fourth shifting factor that appears in our population data. We all know that there are more children than ever, almost twice the number that were being born during the depth of the depression. This is evidenced by the necessity of doubling our elementary school plant.

But we are perhaps less conscious of the growing number of aged and the transformation of their place in our society. Where we had about 12 million aged at the time of the census, we have more than 14 million now and will have 14,400,000 within the year. Thinking in terms of tomorrow, we will have 1,100 more people who have passed their 65th birthday than we have today. Housing for these persons in an urban society of small apartments and small bungalows and ranch houses is a far different thing than it was in a rural society of rambling two-story houses with basements and attics, but most of all, space!

More people are living through their early years so that the illnesses of the aged are increasingly a concern. It is regrettable that a heart attack upon the President is needed to make us suddenly conscious that this is the listed cause of half of the deaths in our land. We can expect an increase in hospital beds to serve these needs, even as we may decrease the beds for some other purposes.

The great growth lying ahead is the growth in the labor force, as these war and postwar babies enter the labor force. Then we can look forward to a further increase in births, as a larger number of persons enter the child-bearing years. Family formation will increase rapidly after 1960.

THE CHANGING DEMAND FOR SERVICES

Given these population shifts, what are their effects on the demand for services? We can discern a number of factors relevant to the demand for governmental services right now.

1. First, we can see that the sheer increase in numbers of persons requires a multiplication of outlays to give the same level of service. Perhaps you recall Lewis Carroll's description of our condition in "Alice in Wonderland." Alice and the Queen were running down a road, and Alice noted that the same tree was alongside of her for some period. When she asked the Queen about this, the Queen simply noted, "On this road, my dear, it takes running as fast as you can just to stay where you are."

However, the problem increases perceptibly in size as we come face to face with the increased marginal cost of the added units of service. For example, land for any public purpose must compete with rising commercial demand, and hence school sites, highway rights-of-way, and ground for parks, play areas, or what-you-will all cost much more. Moreover, when we come to the cost of rebuilding a highway, many utilities must be relocated and expanded, existing structures destroyed, and the cost per mile within cities, for example, becomes fabulous.

Or we face the problem of giving services such as water and sewer services in urban and suburban areas to numbers far beyond those for which the systems were designed. Thus, many cities are digging up perfectly good lines and relaying much larger ones at very high cost. The provision of water service can perhaps be dramatized by a recent election in Denver. By way of background, it should be noted that Denver originally bought its water supply system, including reservoirs, water rights, and water mains, some thirty years ago for less than 10 million dollars. In August, the community voted by a margin of 16 to 1 for a bond issue of 75 million dollars to expand the water supply system. The water board explains its increases in rates by noting that additions to supply are far more costly just for water rights and water reservoirs. A new tunnel under the continental divide is anticipated at this time. Other cities are finding that the economists' habit of drawing the marginal cost curve so that it rises at the right of the graph is only too true for them.

2. In the case of education and schooling, we face not only the increase in numbers, but the increase in utilization, and added to that is a demand for higher standards. Higher income creates demand for higher standards. When my parents went to school, just before the turn of the century, completion of the eighth grade was considered enough. Only 4 percent went to high school. My mother was sent away to high school, and was in the first graduating class in her school, a class of three.

Today almost every state holds out for 16 as the minimum age for leaving school, which puts the normal child through the tenth grade, and two-thirds of high school age children are now attending high school.

My uncle, who taught in a technical high school, used to grumble about the college preparatory courses because only 5 percent of the high school youth went on to college. But we are now in a situation where more than 25 percent of our high school graduates enter institutions of higher education, and perhaps we can expect this to rise toward 50 percent. Hence, a larger percentage of a larger base go on both to high school and to college.

In the past ten years we have been forced to double our capacity to accommodate elementary school students. We are now feeling this bulge at the high school level and can expect to double our wartime high school plant before 1960 in almost all parts of the nation.

The increasing utilization of our colleges is already being felt, and as the saying goes, "You ain't seen nothing yet." Our legislature was given a preview prepared by our state institutions that called for a doubling of our college and university enrollments within the next decade. To duplicate an educational plant built up in the United States over a period of 300 years (though largely in the past 100 years) in the next ten years, is a staggering order.

We ought to be doing some hard thinking, and fast, as to the best and most efficient approach to this one. Perhaps we would do well to encourage much wider use of small junior colleges to take some of the pressure off the major universities, and particularly off of those doing research and graduate work. Perhaps we are ready to launch some new schools, and convert some of the smaller old ones into full-blown universities, as may soon be done here in Milwaukee.

But if you think that once we have gotten through this next decade, we can settle down and relax, remember that this increasing number of young adults is going to provide an increasing crop of young infants!

3. A third change in the demand for services arises from a nation on wheels. The auto manufacturers claim that if all of the motor vehicles produced since the end of World War II were lined up bumper to bumper, they would require more miles of new highway than have been built in that same period.

There are more Americans than ever, and more of them are now owning and driving cars. Public mass transportation systems are choking on the public propensity to drive. We have recently built in Denver a series of municipal parking garages to accommodate the increased number driving to work, but this simply adds more cars to the congestion in the downtown area.

More Americans are shipping more things longer distances by truck, and truck transportation is cutting into rail shipments. A shipping agent for a motor car manufacturer told me that his company was shipping more by truck now because they could thus avoid warehousing at the end of an assembly line. The truck is a fairly reliable way of scheduling deliveries without requiring heavy inventories, and it nets out cheaper — and avoids costly shut-downs when rail freight shipments fail to come through.

The automobile and the motel help more Americans take business and pleasure trips. All of this crowds our highways and requires wider roads, more land, rerouting, by-pass or "alternate" routes, more expensive construction. Obsolescence precedes depreciation. Maintenance is inadequate to deal with the problems presented.

If you have had any doubt that the people are rapidly becoming aware of the need for more highways, look at the success of bond issue elections for toll roads, tunnels, bridges, and highways. The attention given the subject by the past session of Congress suggests that it will be high on the agenda again next year.

4. A fourth major area of expense arises in those locations that are the scene of the greatest mushrooming growth. Many a sleepy old rural community near a city has had to take on the increasing burden of urban-type functions with governmental machinery that was not designed for the task.

People living in these growing areas find it hard to achieve satisfaction of their many demands – perhaps forgetting that they are asking for the accomplishment in a few years of the equivalent of all the progress of many decades in the more slowly built areas.

Cities have in recent years been stepping up their annexations of these fringe areas, but the headaches associated with such annexations have taken some of the bloom off of that rose – and annexation is not a simple matter. Even if annexation were to provide a better solution for suburban areas (a point of contention among us suburbanites), the rate of suburban growth has been faster than annexation.

If our people can see this population and economic growth and new construction, not as some passing phenomenon, but as a likelihood for many years to come, then they will be more willing, perhaps, to anticipate a few of the many problems that lie ahead and provide solutions. I fear that many of our people view this as a brief nightmare – they hope to waken in the morning to find it only a memory. Hence, we are moving entirely too slowly in setting aside, for example, adequate recreational space. Planning and zoning are practices that are sold only after much damage has been done, even in our older cities. Would it not be good if we could profit from those lessons now and avoid some of these mistakes?

5. The first four of these changes all look in one direction – namely a great growth in the need for capital facilities to serve the enlarging population, the school children, the motor vehicle user, and the residents of our new towns. I stress the capital problem because it seems to me far more troublesome than the operating expense problem, which can more easily be absorbed by fairly strong local economies.

But I do want to add the sour footnote again that some areas in our country are experiencing the backwash of war and postwar prosperity as depressed local areas. They have high relief burdens and find the task of educating their young and maintaining their roads a heavy one, even though they have no great need for new capital plant.

During the war, we urged state and local governments to build reserves for postwar use, and some of them did to good advantage, but many waited until after the war for prices to fall – instead of which they rose – causing further postponement in some cases. The Korean incident caused a reintroduction of voluntary credit restraint, which resulted in further postponement of public works. Meanwhile, population pressures mounted. In the early years, these could be met in part out of excess capacity, but that is now gone. Hence, we are now in the position of being able for almost the first time in fifteen years to examine our needs for long-term capital in a period when we can make some longer-term plans, but we are having an aggravated case of growing pains because of the incidents mentioned and the resulting delays.

A depression heritage causes many to think that public works can be postponed and trotted out to lick a depression. But the people are tired of waiting, and some needs cannot wait. Hence, we must now consider our capital needs at a time when the building industry is enjoying a boom, even if the labor situation has relaxed in many areas.

Much of the foregoing has been addressed to the areas of growth in our population. What about the really rural areas which have been experiencing further out-migration, further decline in the number of farms and farmers? Roads and schools rank high on the list of changing demands here as elsewhere. The farmer drives farther to put his goods directly on the market, and he now shops in the city rather than in his nearest village.

Modern technology has helped the farmer to want most of the items his city son or cousin has, and he goes into the city to buy them. He takes longer trips with heavier loads and needs better rural roads. It is a pleasure to drive through the back roads in those richer and more thickly settled parts of the country that have been paving the country truck roads. But much more of this is being sought.

School standards have risen everywhere even in the most remote rural areas, and school districts have been consolidated rapidly in recent years, with more than 30,000 rural districts having disappeared since 1942 (a decrease of one-third). This has often meant increased use of busses to carry students into consolidated schools, sometimes over great distances. Many of these rural areas still tend to lag behind their richer cousins in school plant and richness of curriculum, teaching aids, salaries paid teachers, and other evidences of comparative quality (not that quality is fully measured by such standards).

These rural schools can well claim to have been subsidizing the urban areas, over the years, by the investment they make in the numerous youth who go into urban life. These areas are usually organized into counties with so few citizens that costs per capita, even when limited to the most essential services, is high. But the likelihood of consolidating counties as we have done with school districts is now so remote as to warrant only a passing sigh of regret at the persistence of habit and the strength of local provincialism.

THE NATURE OF THE PROBLEM

With this background, let us turn our attention to the tax and other fiscal questions that grow out of these developments.

The first of these, it seems to me, is this: Shall these capital outlays be financed out of borrowed money, or should governments try (so far as possible) to pay as they go?

There are some good arguments for borrowing money, especially in the small units of government. The outlay may need to be made once in fifty years. It may have a long life and may be used by two generations. It may permit the immediate achievement of a much higher standard of service that could not be achieved by the slow process of pay-as-you-go even through the patient persistence of many different officials through several terms of office.

But there are some good arguments against borrowing as well. There is the danger of forgetting that we shall be involved for many years to come with expanding population and demand for services, so that bond issue piles upon bond issue and property pledged is mortgaged more and more heavily. Borrowing adds higher interest charges to the total cost of the project, which may impair the availability of funds for subsequent operation. Finally, it may tempt a community to buy more than it can really afford, because it puts off paying the piper to another year and another administration.

There are no easy answers either way on this question. Each situation must be appraised upon its own merits, without prejudice. But a bias against borrowing at the local level might be worth preserving so that borrowing is used only in those cases where it is clearly indicated.

The second major question in finance is one that agitates the entire country, namely: Which levels of government should pay how much of each bill? It is safe to assume, in light of the excellent report of the President's Commission on Intergovernmental Relations, that we can look forward to a continuing pattern of federal aid to states, and state aid to local units of government. But at what rates in each program? The White House Conference on Education is going to get some strong recommendations for federal aid to education from the states, my own included. Why? Partly because the local people have given up hope that the states will carry a more nearly adequate share of the load — and they feel that many of the local units are pressed to the breaking point. Further federal aid is, therefore, the logical answer — thus went the argument and the vote. Some of my fellow legislators were just a bit embarrassed by these charges, but they heard them and perhaps winced.

How goes the tax burden at the various levels of government now? Federal expenditures on goods and services, according to the Federal Reserve Bulletin, run at an annual rate of just over 45 billion dollars. (This ignores the interest, veterans' payments, social security, and other transfer payments being made by the federal government.) But national security took 40 billion dollars, while civilian goods and services purchased by the federal government are over 5 billion dollars. By contrast, state and local governments are purchasing goods and services this year at the rate of 29.7 billion dollars, up 2 billion dollars from 1954 and up 6.5 billion dollars from 1952 (some of this out of grants, more out of borrowing, but 21 billion dollars out of taxes).

The total amount of federal grants-in-aid to states in 1954 was 2.7 billion dollars. Obviously if there could be any significant cutback in military expenditures, increases in federal grants-in-aid could be accompanied by cutbacks in federal taxes. The wisdom of such a course of action involves considerations beyond the scope of this paper — but we ought not lose sight of the magnitudes of the details in our awe and wonder at the over-all magnitudes. Federal aid to the states is presently a proportionately slight item in the federal budget, running less than 4 percent and amounting to less than 10 percent of state-local expenditures. They are, of course, important but not consumingly so.

What about state aid to local governments? This includes much of the federal aid to states and amounted to 5.7 billion dollars in 1954, having increased from 4.2 billion dollars in 1950, indicating that at least the figures are getting bigger. But because total outlays are growing, the percentage of aid increased only 2 percent from 28 percent in 1950 to 30 percent in 1954, of total state expenditures.

However, in light of the somewhat special problems to which we have already directed attention, sheer increase in the amount of aid is not an adequate answer. We need to re-examine the methods by which aid is being distributed to be certain that it is going to those units of local government most in need of it. Here, I suspect, the going will get tougher in each of your states. The big cities have long complained, and not without some reason, that they have paid in more than they get back. The superintendent of schools in Denver is saying he doesn't want more state aid — Denver pays out more than it gets back.

The suburban areas are crying that they have the short-run problem, at least, of adjusting to the mushroom growth and that grants-in-aid do not keep pace with their needs nor deal with the deficit in capital plant. They also complain that they get the children when the new houses are occupied but do not get the bonding capacity until a year later and only get the tax money for the children they have been educating as much as 18 to 20 months later. They want some revisions in basic policy about aids and in the time table for collection.

Rural areas plead, perhaps in some cases with good reason, relative poverty, high cost, and the need for attention to the costs of operating over great distances. However, since legislative bodies at the state level have been dominated by rural members who retain relatively great power by simply refusing to reapportion, the rural areas have probably had the most favored position among the three groups.

Cases of exceptional need do get a hearing in our legislatures and a degree of relief. But more is needed.

The third basic question is what kind of tax system? This seems to be the place to shift our focus back to the first word in this title — taxation. We all know that the federal government relies upon the amazingly productive income taxes for almost 50 billion dollars in fiscal 1955, plus another 6 billion dollars under social security payroll and employment taxes, leaving excises and miscellaneous taxes to provide little more than 13 billion dollars a year, currently.

If we want to place the emphasis on progressive income taxes, then we lean toward the federal government and more federal aid. The power of the federal government to make all kinds of transactions free from worry about limitations on state taxing power and free from worry about competitive comparisons between states offers powerful support to those who wish to have the collecting done by Uncle Sam — even though most state and local officials would appreciate having Uncle send the check to them to spend directly upon some aided function. Besides, voting for every appropriation but against every tax measure is held out to us legislators as the sure way to re-election!

The states do not usually rely as much upon progressive tax elements although a few states do. Income taxes provide New York 51 percent, Oregon 48 percent, and Wisconsin 46 percent of the tax receipts. More than half of state tax receipts come from a wide variety of sales taxes. Income taxes are used in 35 states and provided only 16 percent of total state taxes in 1954. But state tax systems do have the virtues of diversity and adaptability. Property taxes, except for public utility taxation administered at the state level but shared with local units, have disappeared as significant elements in all but a few state tax systems.

Local units can understandably be anxious to have some of the benefits of this diversity, for by and large, it is denied to them. Take out the grants-in-aid which local units receive and take out the revenues from municipal enterprises (which may or may not be self-supporting, but which seldom yield much surplus), and then take out of the totals those few, but large, cities using payroll and sales taxes, and you will find property tax, licenses, and fees as the entire source of revenue from local sources.

The larger urban units of local government do have some alternatives to the property tax and have been developing not only some of the sales taxes, especially cigarette taxes, but also have been developing local payroll and gross income taxes. These would be more acceptable in other areas perhaps if they were converted into local income taxes with a personal exemption to give at least a slight measure of progressiveness to them. Local charges, higher license fees, and other miscellaneous sources have been developed as well. But in the rural areas, practically the only source available is the local general property tax.

If you argue that the increased costs ought properly be borne at the local level, then you are in effect saying that you want some new license or fee or a higher local property tax. One school board member in my county suggested with just a trace of bitterness that I as a legislator could refuse to vote increased state aid for schools and then brag that I had kept taxes down — he and his people would pay the bill anyway, in increased property taxes.

SUGGESTIONS FOR IMPROVEMENT

It seems to me that the kinds of needs spelled out here today suggest a growing need for the state to lend a hand, and if it does not lend a strong hand, the local tax burdens are going to increase anyway. However, we are not accustomed to dealing with the kinds of problems spelled out above. Note that we have mentioned primarily capital outlays, and history shows that our grants-in-aid have been aimed primarily at current expense (with four significant exceptions in providing federal aid for capital outlays): (1) the PWA and WPA projects during the thirties, (2) the highway construction program for 35 years, (3) the airport construction program, and (4) the hospital survey and construction aid. At the state level we have had very little experience with aid in support of capital outlays. Here, then, is an opportunity for some creative statesmanship and imaginative thinking.

One suggestion arising in our own state White House Conference which has excited me is that the state might take an equalization approach to this problem in the case of school needs by picking up some or all of the tab on school plant needs that run in excess of some reasonable debt limit. Another was that we lend the credit of the state to those districts that cannot, for whatever reason, borrow directly. This suggests a state building corporation that would borrow the money, build the plant needed, and lease it to the local government, usually a school district in trouble, with some purchase option clause to be used at some appropriate time during the life of the lease. This proposal need not be limited to school facilities. At a recent Colorado conference on state problems, a prominent citizen noted for his study of the water problem has suggested a state agency to undertake the building of storage reservoirs and other water facilities.

States can also help the new areas mushrooming around cities by passing legislation enabling the formation of metropolitan area agencies competent to deal with the problems that cut across the entire area with a tax system appropriate to its needs. The present availability of federal funds for such planning purposes should be put to good advantage.

Perhaps some creative thought can be given to states making it possible for rural units of government which become urbanized to take over more urban functions, by providing for classification of counties and enlargement of the powers of counties that fall within urban orbits. This should include appropriate taxing powers.

Essentially, apart from the local property tax, we must give further study and thought to strengthening our state tax systems, whether we then make use of these by making grants-in-aid for the states to undertake directly the functions that need great outlays (as in the case of highways), or by local sharing of state taxes, as here in Wisconsin, or by local supplements to state taxes. This suggestion arises from the successful use of this technique in other countries (e.g., Norway).

Leaving the problems of the property tax to the second speaker, I should like to review some other specific things that states might do to improve their tax systems.

1. Make greater use of state income taxes. I believe that there are three ways that many states could make significant improvements in state tax systems:

a. Lower the exemptions so that they parallel the federal ones.

b. Do a more thorough job in administration, including much closer cooperation with the Federal Internal Revenue Service.

c. Abandon state deductibility of federal income tax payments from the state base, as 11 states have done for the personal income tax, and as 16 have done for the corporate income tax.

Even with no change in rates, these changes would usually greatly increase revenues, and it is probable that a reduction in rates could be used to make these changes more palatable and still give the state more revenue from this source.

2. Bring truck and motor vehicle taxation into line. The tremendous growth of vehicle registrations has meant, of course, increased revenues from this source. But the mounting pressures on highway facilities require still further revenues. And the motorist knows that bad roads really cost more than good ones. But before we get much deeper into the morass of confusion, particularly as to trucking in all its phases, I suggest that we seek a national continuing conference on highway problems, charged with the task of bringing into a related program the three diverse elements of: (1) taxation, both state and federal; (2) regulation of entry into the business, of rates, and of safety; and (3) construction, including grants-in-aid. A national transportation policy clearly includes a growing place for the motor vehicle, but the present hodge-podge makes an interstate motor trip still an adventure, if not a nightmare.

Regardless of the outcome of the present Congressional debate on new federal aid, there must be a greater state responsibility for financing highways, with a decline in the relative burden of local governments. The maintenance of local roads and streets is the hard core of their continuing problem and how much of this should be placed on property owners, as against motor vehicle users, is open to debate, but the drift is toward the vehicle owner.

3. Improve state school finance activity. Only one-fourth of the states appear to be organized with few enough school districts to be assured that all property carries a reasonably fair share of the burden. In Colorado, we are considering seriously the problem of having some 1,000 districts, and we are planning to place the minimum mill

levy burden on the county, regardless of the number of districts within it. We find that by so doing, we can bring some 300 million dollars of assessed value (really this is about one billion dollars of true value) into equal sharing of school burdens, regardless of conditions within their little districts.

4. Alleviate the situation in depressed areas. A few states have undertaken developmental activity through a state corporation or through lending the credit of the state, or by permitting local units to use short-term tax exemption—although this latter approach has been regularly criticized by most students of public finance. The legislator who hears the pleas of representatives from these depressed areas has no easy solution, however, and he is willing to try almost any of these approaches if it offers hope. No doubt in time a new federal program in this field will be developed, but at the moment the special problems of these areas are overlooked in the joy over the new high levels of national income. We all need to do more hard thinking in this area, and come up with more creative answers than we have so far. The callous answers of the economic theorist are particularly resented within these areas. There are considerations beyond those of economic theory.

In closing, I want to say only one thing about the local property tax. There is, it seems to me, a little touchstone we can use to see where it stands. It is my view that there is an upper limit to the tax and that it lies in the range of 1.5 to 2.0 percent of the true value of the property.

You can come to this conclusion by two different routes. The first is the obvious one that if the tax rate is higher than the going rate of pure interest, it comes close to confiscation. The other route is the pragmatic one of computing the typical rental income from a piece of real estate and then subtracting the other costs that go with it and you will find that taxes cannot come to much more than 2 percent without crowding the 10 to 12 percent total which might be considered contract, or gross, rental. Throughout the country there are tax rates which run far above twenty mills. In my own bill, the rate is just under 40 mills. In a nearby city, the rate is 71 mills. Obviously, these millages are not based on full value.