CHAPTER X

THE FARMER AND TAXATION

The farmer is apt to regard himself and his problems as entirely different from anything pertaining to the town denizen. He is impressed, almost obsessed, by the fact that he produces upon broad acres, while his city brother uses only narrow strips of land. He sees himself bringing forth directly from the ground, whereas the city man simply finishes for use the farmer's original production. The external differences strike him. The internal resemblances escape notice. He is disposed to ignore the essential fact that the man of the city and the man of the country are alike producers and consumers.

The farmer produces raw food and raw material for clothing on land of little value. The city man transforms the raw material furnished him by the farmer into finished food and clothing, or manufactures the products of mines and forests, changing them into objects ready for the farmer and others, or makes needed exchanges. This work is carried on upon land of concentrated and relatively high value. The farmer and the city man are primarily manufacturers. Because we call those on the farm farmers and those in the city by other names, we do not alter the fact that both are producers, working to common ends, and, in our civilization, upon a real industrial equality. For what difference, as producers, can exist between the man who requires forty acres of land worth $100 an acre, or $4000, bringing forth, let us say, wool or cotton, and one who on a lot worth $4000 turns this raw material into woolen or cotton cloth? Both obtain their living from the use of land, one at one stage of production and the other at a more advanced stage. A tax on production strips them equally. A tax on monopoly only frees them equally. The farmer adds value to the city land. The city builds up the farm. The tax which diminishes the ability of the city man to buy affects the farmer's market, and vice versa.

Nevertheless, when the farmer considers land and the taxation thereon, he is apt to stress the extent of his holdings as contrasted with city lots, laying little emphasis upon the all-important matter of values which differ so startlingly as between city and country.

Yet, were the farmer to examine the matter closely, resemblances and not dissimilarities would seem more important. Each—country resident or city denizen—enjoys a common humanity and is affected alike by injustice and wrong. Each is subject to the jurisdiction of the State and suffers or benefits from its actions. Each is a consumer as well as producer. If the city man sustains life upon the food the farmer produces, in turn the farmer often consumes his own products in the changed form the city man has given them, or new products arising from mines or forests, the sea or even the air. If the city man needs the corn, wheat and potatoes of the farmer, the farmer calls upon the city for his plows, tractors and time-saving machinery that he may produce more. They are not independent, but interdependent. The problem of the one is generally the problem of the other. The thing which unfavorably affects one leads to a like effect upon the other. In all truth, there is no great farm or city problem distinct as between them, though there may sometimes be a difference in accentuation, but usually in a minor degree. Essentially, the farm is a miniature city, the city an extended farm, extended in fact but not in principle.

Let us consider further the farmer as a consumer. In our civilization no crop may be planted without the aid of the city, whence comes everything the farmer needs save his personal productions, including the seed, and even these he may buy in the city's market. We have passed the time when plowing was done with a forked stick and a span of oxen whose yoke was roughly fashioned from wood. The farmer's house, his fencing, his furniture, his implements, his auto are all city products. His roads are paved with products largely not of farm origin. All these manufactures and numberless other articles he buys and consumes. Upon all of them rest many taxes. These he pays as consumer, without realizing that he is only one of many sufferers from this wrong. Unflinchingly he bears the burden of almost countless personal taxes and wonders why his condition steadily becomes worse.

For worse to the working farmer it does become. Proof is furnished by a single fact. Steadily from decade to decade we are able to point out that our farming population is changing from land-owning to tenant-cultivating. In 110 years—from the time when land was comparatively free to an era of speculative prices for farm land—the percentages of our land-owning farmers have fallen from about 100 to less than 50, and the downward progress continues.

It is no mere coincidence that this decrease in land ownership is parallel with our growth in taxation on industry. Land speculation, which in its growth hurts the industry of the city man, affects the country man even more deeply.*

*Said the Director of the United States Commission on Industrial Relations (1915) Report, p. 35:

"There can be no more complete evidence of the truth of this statement [that large owners were holding land out of use to reap unearned increment] than the condition of the farms of 1000 acres and over, which, valued at two and one-half billions of dollars, comprise 19% of

If it is bad for the city dweller, it becomes doubly bad for the farmer, who is turned all too often from an independent owner into a tenant.

The man who today would become a farmer—let us say the son of the farmer of yesterday—finds that he must pay an exaggerated price for the privilege of using a natural opportunity to earn a living, a price based on speculative value. Either he must pay out too large a portion of his needed capital or else run deeply into debt. Thus situated, he may, and very often does, turn from the farm as a field for productive industry.

There remains a distinction between the rising land values of the city and the country, which tends to enrich the city landowner. Land values are based upon location and the growth of the community, and these operate irrespective of location of land in city or country. The ability of the farmer to produce his wealth rests upon the industry with which he uses his individual skill and maintains the fertility of the soil, coupled with his ability to market. It is location that gives social value to land. Skill in production represents the personal element, and fertility a factor which he must constantly replenish. In considering farm land values we may reject the purely personal element, leaving only fertility* and proximity to a

all the farm land of the country and are held by less than 1% of the farm owners. The United States census returns show that in these 1000-acre farms only 18.7% of the land is cultivated, as compared with 60 to 70% in farms of from 50 to 499 acres. Furthermore, it is well known that the greater part of these smaller farms which are left uncultivated are held by real estate men, bankers, and others who have independent sources of income. More than four-fifths of the area of the large holdings is being held out of active use by their 50,000 owners, while 2,250,000 farmers are struggling for a bare existence on farms of less than 50 acres, and an untold number who would willingly work these lands are swelling the armies of the unemployed in the cities and towns."

* Fertility may largely be laid aside as an element in the taxation of land values, as unless constantly maintained by the capital and labor of the farmer it will soon reach the vanishing point.

denser population. The city furnishes the latter, which is the only speculative element that is relatively permanent. Consideration of these factors may explain why speculation in farm land, bringing to ruin so large a percentage of our rural landowning population, has caused so much more evil than speculation in city land.

Speculation is vastly more artificial and therefore insecure in the country than in a crowded community. It is more natural—as far as disease may be called natural—in the city.

Examine for a moment the contrasting situation of the cities. There each new accession to the population means added land value. The proximity of people adds to their ease of production and to the rewards of labor and capital, and consequently to the land values. These speculatively represent future anticipated accretions, though primarily based upon production. In the city, for example, the narrow strip of land on which stood a building of moderate size may now support a modern sky-scraper, with rentals many times that of the original structure. Land that was originally used by one family becomes the workshop or the residence of a thousand. Little of this condition exists in the country.

What inference may we draw from this? The day of speculation in farm land as contrasted with the city is passing, as the speculator-farmer will feel, save in the immediate neighborhood of cities where the values are really urban and not rural. There remains to the farmer only the proper rewards for his labor. In bitterness the farmers, or farm owners of the Middle West, or parts of California and elsewhere, commence to realize this, although they had hoped to gain from speculation. They have pursued an ignis fatuus which has led them to distress. They failed to perceive that the natural home of land values—real and speculative—must be in the cities, the homes of dense populations. Therefore, so far they have very generally resisted the freeing of industry from taxation, thinking they possessed—such of them as are left to do so—land values, when in truth they possessed land of but little value save as their labor was applied to it. All the while the farmers' progress lies in gains from expenditures of money and labor in rendering land productive, and their true wealth is in their improvements and personal property. These we contend should be free from taxation.

The farmer feels that there must be some reason why wealth is becoming more and more concentrated in the cities, while his condition becomes comparatively worse. Too often he seeks a corrective through new taxes on tangible and intangible personal property. He ignores both the proven futility and injustice of intangible taxes, and as to taxes upon tangible property, he forgets that the ultimate consumer-farmer pays out of proportion to the man of the cities.

Even such a well-known advocate of the theory of ability-to-pay as Seligman points out that when we attempt to levy a general property tax, "what is practically a real property tax in the remainder of the state becomes a general property tax in the rural regions. The farmer bears not only his share, but also that of the other classes of society." Thus he finds that "the weight of taxation really rests on the farmer, because in the rural districts the assessors add the personality, which is generally visible and tangible, to the realty, and impose the tax on both." (Seligman, p. 28.)

If it were true, as it was when Seligman first wrote, that, comparing the tangible personal property of the farm with that of the city, the farmer would be directly the gainer by striking out taxes thereon altogether, still more is this emphasized today.

Farm equipment has shown a constant progression from the simple, inefficient tool to the complex, efficient implement; the ox-drawn forked stick to a gangplow with gasoline tractor, and from a sickle to the combinations of reapers and harvesters. The agriculturist, in his use of machinery in various forms, is rivaling his city brother, and in this regard his changed condition confirms our comparison of him to the city manufacturer as a fellow producer. This is made luminous through a recent article by Professor E. A. Storey of the Montana Agricultural Experiment Station, which points out the drastic changes of recent years as follows:

"The rapid introduction of power and power machinery has brought such an entirely new situation into Western agriculture that it is almost bewildering. There has been no other five-year period, or fifty-year period for that matter, where the changes have been so rapid and complete. The 15-year-old boy speaks of the old-fashioned days of six years ago with the same spirit of reminiscence as his 70-year-old grandfather at that time spoke of the covered wagon.

"The average investment in equipment in the old wheat belt is about $85 per worker. In the Midwest it runs a good deal higher, or approximately $900 per worker, while in Montana it runs from $3,000 to $5,000 per worker."

Therefore, the farmer, now more than ever, suffers from the possession of tangible personal property easily valued and incapable of concealment. He can hardly help seeing the direct effect of taxation upon his personal property, even though he does not appreciate what proportion of the selling price such taxes represent in the price he pays for goods purchased from the city merchant.

The farmer pays too much—often vastly too much—in direct and indirect taxes for what he gets. He is the victim of poor adjustment of functions of government already mentioned. Surprisingly great reductions in the cost of government—not far from 50 per cent in some instances—have been brought about in the state of Tennessee very recently through the consolidation of counties, and similar results may probably be obtained to the advantage of the farmer in every state in the Union. The automobile has rendered many county seats with their officialdom entirely superfluous. Functions should be shifted in their management. Education and order should be affairs of the state, not the county as a political unit. We can do no more than indicate these points.

It is perhaps natural that even in the presence of a great reform every man should ask how he will be affected by its enactment. Most farmers will admit that the vast majority in the cities will gain by the removal of taxes upon industry which we are advocating. Many, perhaps almost all, will perceive that its effects will be to cheapen to them the products of the city, and lower their taxes. These facts should ensure his favorable consideration. Yet he may hesitate to accept the proposal if he thinks the broad acres of a farm mean large land value, and forgets all else. Nevertheless, a picture that ignores any essential feature cannot be complete.

With but a single exception, coming later in the discussion, statisticians who have sought to answer this question have erred in a large way and in material details, and thus have failed to give a truthful reply.

We may illustrate by the State of West Virginia, cited by Seligman (p. 86) to show that were improvements and personal property exempted from taxation, the farmer would pay more and the city less taxes. However, Professor Seligman entirely overlooked the fact that West Virginia is not primarily an agricultural State, but—with its stores of woods, gas, oil and coal—pre-eminently a mining and forest State; that the real sources of its landed wealth are not at all in its farms, and that these lumber and mineral resources are not properly taxed. The Professor also overlooked the fact that all that goes under the name of "land" is not farm land, while the most valuable cannot be so classed. Unconsciously, apparently all the land values of the smaller towns of the State become farm land values, in his calculations.

We do not hear of the wealth of the farmers of the State, but we do hear of its multi-millionaire mine owners, who, even as we write, are corrupting popular government.

But the error is carried into important detail, and all statistics save the exception referred to and to be described later are glaringly inaccurate.

Assessors customarily classify everything as land except the houses, barns and other improvements apparent to the eye. The differences between wild and improved land, such as clearing, plowing and draining, maintenance of fertility, are all necessary to render and keep land fit for cultivation. These, though temporarily incorporated into the land, are not land itself, but must be maintained by labor. Except temporarily as to fertility, they are no part of the original gift of nature, and disappear only to reappear through the perennial work of man. Neither have they been created by the community as a whole. The only thing we can accept as farm land pure and simple is land in its wild state.

It is not too much to say that, properly differentiated, more than one-half of the value of land as borne on the assessment rolls is improvement value, even after counting out visible improvements. The farmer should see that this correction is made upon the assessment rolls. Land and labor must be rigidly separated. Just as the cellar and foundation of the house in the city form part of improvement values, so should the underground and passing elements of farm value be classified as the same.

The only real study of the subject under consideration which so far as we know has ever been made is called "Local Taxation as Affecting Farms," (Circular No. 5, Department of Agriculture, Division of Statistics, 1897) and is based upon careful returns from 1114 farms divided between two counties in western New York, and two near New York City. The experts making the examination "were directed to ascertain the unimproved value of land—that is, what the entire land, cultivated and improved, would be worth if uncultivated and unimproved, with suitable allowances for favorable or unfavorable situations, for fertility, for tillable qualities and other matters affecting value." The report showed improved land to have a value of $41 per acre and the unimproved worth only $15.

The conclusions of the Department of Agriculture were that the unimproved value of the land was 39.2 per cent of the value of real estate (i.e., both land and improvements) and that it was 34.5 per cent of the existing value of both real and personal estate; "that to raise the same revenue [on land only] the [then] present rate of .92 of one per cent would be raised to 1.50 per cent; that if city taxes are used as a basis of comparison under similar circumstances the cities would pay 58 per cent of the improved value as against 39.2 for the farmer." Again we repeat this takes no account of the incidental but unavoidable gain to every industrious man, more especially the farmer, from the exemption of the city personal property, business and improvements from taxation.

We should not dismiss this branch of the discussion without reference to the contentions of Professor John R. Commons contained in an article entitled "A Progressive Tax on Bare Land Values." (Political Science Quarterly, Vol. XXXVII, March, 1922.) Among other things, he says:

"Yet if there is another purpose of taxation [than touching ability-to-pay] that may properly be applied, namely, the effects on wealth production, then the man who gets his wealth by mere rise in bare land values should pay proportionately higher taxes than the one who gets his wealth by industry or agriculture. In the one case he extracts wealth from the commonwealth without adding to it. In the other he contributes directly to an increase in both private wealth and common wealth."

Again he asks the question: "What will be the best inducements to individuals to increase the common wealth by increasing their own wealth?" The answer, from our point of view, is of course obvious. "Taxation," he says, "is in part a process of obtaining public revenues by proportioning inducements to obtain profits."

Applying these principles to the position of the farmer, he argues that in assessing farm land for taxation, fertility should be rejected in determining its value. His reason is that taxation should look to the future rather than to the past, and fertility is an element which the farmer must at all times maintain by his industry and his expenditures of capital. His examination leads him to the conclusion that, on the average, one-half of the value of the farmer's land rests in a value he, himself, must keep up. The tax, therefore, upon his land should be reduced 50 per cent before visible or semi-permanent elements are taken into consideration.

Under any proper application of the principle of Professor Commons, the farmer's tax should rest on site value and nothing else. When this is done, the working owner will be placed upon the same plane as his city brother.

After all, the working farmer, as well as the worker of every description, is in conflict with the beneficiaries of certain firmly established existing conditions. These beneficiaries are for the most part located in the cities. Because of such location, the farmer tends to believe that there is a natural antagonism between the city and the country. Nothing could be further from the truth. Whatever antagonism exists is between the worker and consumer,—wherever located—on the one hand, and the beneficiary from privilege on the other. In either case, the location is in truth an irrelevant matter.

The beneficiaries of privilege possess advantages above anything the farmer possesses or can hope to possess, and to them he must pay a privilege or monopoly toll without any compensating advantage. Again we review some of the advantages the few hold over the farmer, very much as in essence they hold over their fellow citizens of the city.

Much that the farmer purchases comes to him with the burden of tariff taxes. Almost always he seeks in vain for the advantage of like privileges to tax his fellow man for his own special benefit. In growing corn, wheat, cotton, oats, cattle and all great staples, as well as fresh vegetables, the farmer is in active competition with his fellows within or without the nation. In only a few products of relatively minor importance and grown within narrow areas can he, through the tariff, obtain any special privilege. For the tariff privilege possessed by men living in the city, he has in this respect no counterbalancing privilege. He cannot oppose privilege to privilege.

Again, it is extremely rare that the owner of a patent monopoly is a farmer. Once more the farmer suffers, without recompense from a private monopoly of his own, not because he is a farmer, but because he is a producer and consumer and, like the vast majority in the cities, must pay the charges of the patent-owner upon production and consumption.

Look at another matter of importance. Everywhere we find the community saddled with great privately-owned monopolies of light, heat, and power, and various forms of transportation. Here we discover swollen valuations, watered stock, extravagant management, and wasteful expenditures, to be charged against the costs of construction and operation. Hence higher charges must be imposed for their products, which charges must be paid for by the user, whether farmer or city man. Thus a third time we discover that the problem is not one of farm and workshop as contrasted with each other—not a struggle between farm and factory—but one of monopoly and consumer. The supposed peculiar farm interest proves non-existent.

We have pointed out the tariff, patent and public utility monopolies merely to suggest that, as to them and their frequent oppressions, the farmer is in like case with the vast majority of his fellow citizens; that while they all in greater or less degree are monopolies, the farmer, competing in the general markets of the world, possesses no monopoly to counterbalance those from which he suffers. As a landowner and producer, held down by wide competition with other farmers all over the world, his advantage over non-landowners is too slight to influence his judgment.