than the government itself; that it shall not violate or evade law; that it shall not corrupt politics, and oppress the people by excessive rates and prices and complete destruction of all competition. There are those who would give free hand absolutely to capital to combine as it pleased and to exercise its power of concentration without any interference or supervision whatever. There are others who would destroy all trusts and combinations, but there is a large middle class who believe that it is possible to maintain the advantages of concentration without danger to the interests of the people by surrounding it with a system of reasonable publicity, and reasonable governmental supervision.

MUNICIPAL TAXATION.[1]

BY LAWSON PURDY, SECRETARY, NEW YORK TAX REFORM ASSOCIATION.

A DISCREDITED THEORY—THE GENERAL PROPERTY TAX.

By statute the general property tax prevails throughout the United States, with very few exceptions, and local revenue is supposed to be raised by a uniform tax equally imposed on all property. This system is based on the theory that in order to be equal taxation must be equally imposed on everything that has value. To-day the theory is completely discredited. Hardly a voice is raised in its favor, and the so-called system is a wreck, only held together at all by constitutional restrictions and inherited prejudices. The first problem that confronts us is how to give the general property tax a decent burial.

A SENSIBLE TAXATION SYSTEM RENDERED IMPOSSIBLE BY CONSTITUTIONAL LIMITATIONS.

The constitutions of at least twenty-four states contain limitations upon the power of the Legislature which render impossible the adoption of any sensible system of taxation. The constitution of Ohio is as bad as the worst, and contains a typical restriction: "Taxes must be equal and uniform, and imposed on all property, both real and personal." The legislatures of states whose constitutions contain such restrictions seem to be afraid to abolish the restrictions, and have proposed to the people at frequent intervals ill-devised amendments providing for an increase of power to the Legislature. Such an amendment was proposed to the people of Minnesota a year ago, providing at great length that the Legislature might impose an income tax and might do various other things. The people very properly rejected it. What is needed is an elimination from all constitutions of any restraints upon the power of the Legislature to deal with taxation. The constitution of the United States protects our fundamental rights and protects them adequately. Why the people of a state in which the laws are about as bad as they can be should be afraid of freedom to change for the better is amazing. The constitutions of New York, Connecticut and Massachusetts are practically silent on the subject of taxation. And in some respects those states are far in advance of states which have restrictions. The only danger to which they are subjected by the absence of constitutional restrictions is the danger of having legislation imposed on them like that of Ohio and many of the western states. The first step forward in all the states of the Union but eight should be an amendment to the constitution eliminating all matter relating to taxation.

BAD RESULTS FROM SECURING STATE REVENUE ENTIRELY FROM SPECIAL SUBJECTS.

Local taxation is complicated by state taxation chiefly because in most of the states a tax is imposed for state purposes upon property as assessed by local officials. This leads to undervaluation by local assessors so as to reduce their share of the state revenue. Several states have succeeded in providing, and others are attempting to provide sufficient revenue for the state by special taxes laid on selected subjects at unvarying rates. As a sole reliance for state revenue this is a very bad substitute, because it lacks elasticity. Sometimes the revenue is excessive and there is a mad scramble for appropriations which it is difficult to cut down when hard times reduce the state's income. Sometimes the revenue is insufficient and the legislatures strive to invent new taxes, generally bad ones, and disturb the business conditions.

STATE TAXATION OF LOCAL REVENUES.

At least part of the state revenue should always be raised by an elastic form of taxation, which can be increased or diminished in accordance with the need for revenue, and whose incidence will be felt by the taxpayers.

Such an elastic system was proposed four years ago by the New York Tax Reform Association, and indorsed by the New York Chamber of Commerce and other bodies. It provides for the apportionment of so much state revenue as may be required in excess of that derived from special taxes, to the several counties of the state in proportion to the revenue raised for all purposes by and within each county.

By this plan, if the total local revenues amount to one hundred million dollars, and the local revenue of a certain county amounts to one million dollars, that county would contribute 1 per cent of whatever amount the state may need.

This plan was adopted by the state of Oregon, by a somewhat imperfect statute, in 1901. The Oregon law is unjust in that the apportionment is based upon county revenue and not upon the revenue of each county and all the taxing districts within it. The result is that in Oregon, as I predicted, the rich counties will pay less than before, and the poor counties more. As a matter of justice the exact reverse should have been the case.

Under the usual plan of raising state revenue by a tax upon all forms of property, the poor counties pay more than their share, because in poor counties the personal property is generally more fully assessed, and improvements on land form a larger proportion of the

increases the burden of taxation upon industry, and to that extent relieves monopoly.

If the apportionment is based upon total local revenue, cities will pay more than they do now, and rural districts will pay less, for in cities wealth per capita is greater and the tax rate is usually higher.

A statistical study merely proves what anyone familiar with economic law would naturally deduce—that an apportionment based on revenue is very nearly equivalent to apportionment based on monopoly values.

Even if this plan of apportionment of state revenue were not more just, it would still be a vast improvement, because of the necessity of divorcing state from local revenue, and the evils attendant upon raising all state revenue by inelastic taxes.

In any event the amount to be raised is small, much too small to cause any undue economy in local expenditures. Indeed, the tendency to economical administration of local affairs which would result from the apportionment of state taxes on the basis of local revenue is a desirable feature of this method of apportioning the burden of supporting the state. In the state of New York all the expenses of the state are only about 15 per cent as much as the total expense of supporting local governments. There are very few states in which more than one dollar in seven is required for state purposes, and in many states a large part of the state revenue is now raised by special taxes.

REFORM IN LOCAL TAXATION—THE ASSESSMENT OF REAL ESTATE.

When constitutional limitations are removed and state revenue is provided without the imposition of a state tax on property as assessed by local officials, the way is clear for needed changes in the methods of raising local revenue.

The chief source of local revenue is now and always will be the taxation of real estate. Real estate now pays 75 per cent to 99 per cent of all local revenue. On this account alone it is of the utmost importance that the assessment of real estate should be as nearly equitable as human machinery can make it. The prevailing practice of disobedience to the law which requires assessment at full value, or market value, or cash value, renders an equitable assessment an impossibility.

After a long struggle the policy has been adopted in the city of New York of assessing real estate as the law directs, and in spite of an insufficient appropriation and a very inadequate number of assessors, the improvement effected in two years has been tremendous.

At first there was some opposition, which came chiefly from those who, as one of the tax commissioners said, were afraid that justice would be done; but now the best informed real estate men in the city are almost unanimously agreed that the policy is sound and that the assessments on the average are much more equitable than in the past.

In the New York Herald of April 6 Mr. D. Phoenix Ingraham is reported to have said: "If it can be carried out fairly and accurately full valuation assessment of real property in New York City is the best thing that could be devised. It will do away with the possibility of favoritism and suspicion of dishonesty. Considering the salaries paid the assessors, I am almost amazed at the correctness of the last assessment. It was generally fair and accurate, and the rate of taxation kept the total burden to a minimum."

Mr. John N. Golding said: "I believe the law states that property shall be assessed for its full valuation. I believe in carrying out the law. I think this system is preferable to the old system, where it was supposed that the assessment was 60 per cent of the value of the property. The old way of assessing property seemed to me to be ridiculous. You would find some property assessed for 80 per cent of what it would bring in the market and others about 30 per cent, but establishing what the assessors presume to be the full market value is beneficial to all parties concerned."

The criticisms of real estate men reported in the same paper really relate to details and not to the principle. They complain that there are not enough assessors, that they are not sufficiently paid, and that the work cannot, under these circumstances, be accurately performed. All this is true, and the next step in the city of New York must be to secure a much larger appropriation for the tax department and increase the number of assessors and the salaries of the chief deputies.

VALUATIONS OF LAND AND IMPROVEMENTS STATED SEPARATELY.

One year ago a further improvement was adopted in the city of New York requiring the assessors to state separately the value of each parcel of land, exclusive of improvements. This has been in practice for many years in Massachusetts and a few other states. Our New York plan only differs in this, that while in other states the land value is separately stated, the improvements are also separately stated.

In the city of New York we have only two columns of the record for values, in which are set down the land value and the total real estate value. This is an economy of clerical labor, and we believe positively exerts an influence on the assessors to keep them from overvaluing buildings.

In strict logic there is, of course, no difference between the requirement to state the value of land, of the improvements, and the total, and to state only the value of the land and the total; but when the assessor is confronted with a building, producing a revenue, which would cost thousands of dollars to reproduce, he is reluctant to state directly that the building has no value, even when, as a matter of fact, he knows, and everyone acquainted with the property knows, that the building adds nothing whatever to the selling value of the property, because it is no longer suited to the site. Even under our New York plan of separately stating the land value and not the improvement value, it is evident that buildings have been overvalued in

proportion to the land. A comparison with results in Boston, where assessments are well made, leads to the belief, however, that buildings are less overvalued in the city of New York than they are in Boston.

CORDIALLY APPROVED BY REAL ESTATE EXPERTS.

The requirement of the separate statement of land value has met with cordial approval by real estate experts.

Mr. Golding, whom I have already quoted, said: "I think a separation of the land and building values a most excellent one. It enables the owners to see how the assessors arrive at their conclusions."

Mr. Franklin Lord of Daniel Birdsall & Co. is recorded as follows: "The plan of assessing the improvements separately seems to me to be absolutely necessary to the proper working of the new method, because without it we would still be unable to find out what part of an assessment applied to the land, and it would still be possible to favor a property by asserting that the inequality was due to the value of the improvements. If the value of the improvements was not stated, no one could say what comparison might be made between one parcel of land and another. I believe that as soon as we get used to the new order of things there will be very few found who will be willing to return to the old chaotic way, where everybody talked in a hazy way about a 40 per cent basis and a 60 per cent basis, and where the commissioners, when pushed for an answer on the subject, would reply that they recognized no comparison, but simply assessed the property for what they thought it ought to be assessed."

ANNUAL PUBLICATION OF REAL ESTATE ASSESSMENTS.

A still further improvement was effected by an amendment to the city charter which requires publication annually of the complete record of real estate assessments. Publication will be made by sections, into which the city is divided for purposes of assessment. Each section contains from ten to thirty thousand parcels, and will be published separately, and persons interested can buy for a few cents the assessment roll of one or more sections, or of the whole city. This will render comparisons very easy, and disseminate knowledge of assessed values which will tend toward constant improvement in the accuracy of the assessments.

LOCAL OPTION—PERSONAL PROPERTY TAXATION.

The removal of constitutional restrictions and the abolition of a state tax on all property locally assessed will make possible a reform without which progress is well-nigh impossible. You all know, and all students of the subject know, that in every state we are attempting to tax property which never ought to be taxed at all. On this subject city sentiment is naturally far in advance of country sentiment, yet country sentiment rules our legislatures. So long as there must be one rule for the whole state, progress can only be made at the pace of the slowest. With local option, progressive communities will furnish object lessons to the unprogressive, and progress will be rapid.

REFUSE TO BE GUIDED BY EXPERIENCE.

The few adherents of the general property tax theory always excuse the failure of the law on the ground that it is not sufficiently stringent. They want every man to be required to give a statement of all his property under oath, and in states where they have a severe listing system they complain of the incompetence, or worse, of those charged with enforcing the law. They are generally very ignorant of the lessons of experience, or are so wedded to a theory that they refuse to accept any experience as a guide to action.

OHIO'S TAX INQUISITOR LAW.

In Ohio they have the most efficient and minute scheme of assessing all classes of property which has been devised in any state. Every citizen is bound under oath to make a complete return of his property in detail. If he declines to make the statement required by law a penalty of 50 per cent is added. In addition to this they have what is called the tax inquisitor law, which gives the county commissioners power to make contracts with persons who may give information which will result in personal property being placed on the assessment roll. Under the act passed in 1885 applicable to Hamilton and Cuyahoga counties, the amount authorized to be paid to informers was 25 per cent, and under the general act passed in 1888 applicable to the entire state, the amount authorized to be paid was 20 per cent of the amount recovered. The efforts of the tax inquisitors are principally devoted to ascertaining what foreign stocks and bonds are improperly withheld from the returns. The result of the severe listing law and the tax inquisitor law has been the steady shrinkage in the assessed value of personal property.

TAXATION OF PERSONAL PROPERTY DENOUNCED BY MCKINLEY'S TAX COMMISSION.

In 1893 the Hon. William McKinley, then governor of the state, appointed a tax commission of four members, two being Republicans and two Democrats, who, when appointed, expressed themselves as in favor of continuing the tax upon personal property. As a result of their investigations they said in their report:

"The system as it is actually administered results in debauching the moral sense. It is a school of perjury. It sends large amounts of property into hiding. It drives capital in large quantities from the state. Worst of all, it imposes unjust burdens upon various classes in the community; upon the farmer in the country, all of whose property is taxed because it is tangible; upon the man who is scrupulously honest, and upon the guardian and executor and trustee, whose accounts are matters of public interest."

DECREASING AMOUNT OF INTANGIBLE PERSONAL PROPERTY RETURNED FOR TAXATION.

The Hon. E. A. Angell, who was a member of the Ohio State Tax Commission, in an article published in the Independent of February, 1898, said:

"Let us compare the returns of intangible property in Hamilton county thirty years ago with the corresponding returns at the present time:

INTANGIBLE PERSONAL PROPERTY RETURNED FOR TAXATION IN OHIO.

1866	$17,460,477	1894	$5,722,789
1867	17,199,699	1895	6,036,935
1868	15,455,611	1896	5,389,350

"The amount of money returned in Hamilton county in 1866 was $6,778,883, while in 1896 it was $1,097,283. The amount of money on deposit in Cleveland banks in 1896 was about $70,000,000 and of this there was returned for taxation in 1896 $1,741,129.

"It must be borne in mind that the population and wealth in these cities have marvelously increased within this period. Cincinnati was a city of about 160,000 in 1860; it has now more than 400,000. Its growth in wealth is more striking than the growth in population. So, too, of Cleveland. Any discussion would be inadequate which did not take these facts into consideration.

"There are on deposit in the banks throughout the state about $190,000,000; of this $135,000,000 or $140,000,000 are in the five city counties. These city counties return for taxation about $5,000,000 in money, while the remainder of the state returns $29,000,000 out of perhaps $60,000,000.

"So of credits and stocks and bonds. The whole amount of stocks and bonds returned in the whole state is but $7,000,000. Thirty years ago it was over $12,000,000.

"It is evident at once, therefore, that *the informer scheme does not make the general property tax effective.* It has utterly broken down in Ohio, as elsewhere. The merest bagatelle is reached outside of visible, tangible property."

In view of these facts, when anyone asks how personal property can honestly be taxed, I am reminded of Elder Skaats, in "Vesty of the Basins." At the Sunday class meeting the question was propounded, "How can we escape trouble?" Said Elder Skaats, after pondering deeply, "By gum, there ain't no way. I have been married twice, and I know."

TAXATION OF DEBTS.

In the state of Ohio they are obliged by the constitution to tax their own power to borrow money for the benefit of the state, and of municipalities, with the result that they must pay high rates of interest to foreign lenders.

The United States was saved from this absurdity by a wise decision of the Supreme Court (Weston vs. City Council, 2 Peters, 469). Chief Justice Marshall, in his opinion, said: "The tax on government stock is thought by this court to be a tax on the contract, a tax on the power to borrow money on the credit of the United States, and consequently to be repugnant to the constitution." That sound, logical decision, rendered over seventy years ago, overthrows every argument for the taxation of debts of all kinds, whether state, municipal or personal; but it is only through local option that we are likely to be able in the near future to abolish the taxation of debts in the state of New York, or in most of the states of the union.

MORTGAGE TAXATION INIQUITY.

In the state of New York the rural constituencies still cling to the taxation of debts secured by mortgage of real estate, in spite of the fact that the taxation of mortgage debts is about the meanest kind of double taxation there is, for it singles out a man who is in debt to impose on him a burden without resultant benefit to anyone. If by stringent provisions of the law, all mortgages are taxed, there is a certain equality in the iniquity; but the general rule is that only occasional mortgages are placed on the assessment roll. In the state of New York the interest rate on mortgages is only increased by a portion of the tax, and some owners of mortgage debts who escape taxation profit by a higher interest rate than they would otherwise receive, which all mortgagees must pay; while some mortgagees who are too honest or too ignorant to escape pay the full tax and submit perforce to a confiscation of their property.

The impression prevails in some quarters that the exemption of mortgage debts from taxation would be a special benefit to those who lend the money. So far from this being the case it seems probable that many who now lend money on mortgage security and escape taxation would really receive a smaller net return by reason of the greater competition in the lending of money. The benefits would be so widely diffused that all classes in the community would share in them.

THE IGNORANT AND DEMAGOGUES PREVENT TAX REFORM.

The slow progress we are making in reforming methods of taxation is due far more to ignorance than to any conflict of interests. Men in the country want to tax the rich man, and go about it in a way that is quite unsuccessful and recoils with redoubled force upon themselves. Even in cities any demagogue who for the moment gets the ear of the people can get temporary popularity for schemes to tax department stores, to tax reserves of insurance companies, and other forms of wealth or agencies of trade or commerce. Every tax on the products of human labor or upon the processes of trade falls inevitably on the people in proportion as they consume; that is, such taxes are a burden inversely proportioned to the family income. What we need is smaller constituencies to educate, and object lessons which will educate the rest of the people by sheer compulsion.

CONCLUSION—THE SHORTEST AND EASIEST WAY TO IMPROVE LOCAL TAX SYSTEMS.

In conclusion I will sum up the steps which lead to the shortest, easiest way to improve our local tax systems.

Abolish all constitutional restrictions on the power of the Legislature to regulate taxation.

Do away with the necessity for uniform state taxation by apportioning state taxes in proportion to local revenue.

Give to every county the right within the general laws of the state to exempt from taxation any class of property, or to proportionately reduce the assessment of any class of property.

As an immediate reform, assess real estate annually, state the value of land, separately, and publish the assessment rolls in a convenient form.

With local option every community will be a debating society, and education which now halts and stumbles will advance with leaps and bounds. People who now fail to understand that taxation is of importance to them will demand enlightenment. Under these conditions the progress of the decade will exceed all the progress of the past one hundred years.

A NEW METHOD FOR ASSESSING THE STATE LEVY—SENATE BILL NO. 191.

Ohio Seventy-fifth General Assembly, 1902.

To provide for a new method for assessing the state levy on the general property tax.

Be it enacted by the General Assembly of the State of Ohio:

Section 1. That sections 2820, 2820-1, 2822, 2863, 3951, 3951a, 3951b and (4105-65), section 12, be amended and supplemented by supplemental section 2820-2, as follows:

Section 2820. There shall be assessed and collected annually in the manner hereinafter provided, so much of the revenue required by the state as is not derived from other specific sources.

Section 2820-1. The governor of the state, state treasurer and state auditor shall constitute a state board of apportionment, and they shall meet annually within thirty days after the adjournment of the General Assembly, in years when the General Assembly has been in session, and on the first Monday in February in other years, in the office of the auditor of state, and shall ascertain and certify the amount of revenue required by law to be raised for state purposes from other than specific sources, and such certificates shall state, distinctly, the objects of the same, to which only it shall be applied, and the amount to be applied to each object.

Section 2820-2. The state board of apportionment shall, at each of its meetings, receive from the auditor of state a detailed statement showing the gross revenue accruing to all the counties in the state for the preceding fiscal year, and shall assess the percentage of the state revenue which each county shall pay, whenever an assessment is to be made, by ascertaining what percentage the amount required by the state is of the total gross revenue accruing to all the counties in the state for the preceding fiscal year, and the auditor of state shall immediately certify this percentage of state revenue as the percentage of its gross revenues each county shall pay to the state, and mail a certificed copy of the same to the county auditor of each county.

Section 2821. The term "revenue" as applied in the foregoing sections to the revenue to be raised for state purposes shall include all the requirements of the state not specifically provided for, including any deficit that may be caused by a failure to collect the amount estimated by the General Assembly to be collected from any specific tax, and shall be apportioned to the use of specific funds as required by law.

"Specific Sources" and "Specific Taxes" used in this act are:

Liquor traffic.

Collateral inheritance tax.

Excise tax on public service corporations.

Capital stock tax, business corporations.

Insurance tax on insurance companies.

All unenumerated sources other than general property tax.

Section 2822. The county commissioners shall, at their June session, annually, determine the amount to be raised for ordinary county purposes, for public buildings, for the support of the poor, and for interest and principal of the public debt, and for road and bridge purposes, and they shall set forth in the record of their proceedings specifically the amount to be raised for each of said purposes, and to the aggregate thereof they shall add the amount required to be raised for state purposes, as the same shall have been certified to the county auditor by the auditor of state, and as the same shall be certified to them by the county auditor before the June meeting of said county commissioners; and the said county commissioners shall then levy on each dollar of valuation of taxable property within their respective counties a tax at such rate as will produce the aggregate sum thus determined as necessary to be raised; provided, that in any county the levy made by the county commissioners shall not be in excess of the levy authorized by law, except in so far as shall be necessary to produce the amount of state revenue required to be raised by such county.

Section 2863. The county auditor shall, on or before the tenth day of November, annually make out and transmit by mail to the auditor of state a complete abstract of the tax duplicate of his county, which shall state the aggregate value of the taxable property, and the total amount of taxes for all purposes assessed thereon for that year. He shall at the same time make out and transmit to the auditor of state an abstract showing the gross revenue to be raised for general county purposes for that year, said "gross revenue" as used in this section meaning the total sum of money to be received by any such county, including the municipal, village, township, school or other tax districts therein for public purposes, but not including assessments for local improvements, moneys borrowed, moneys re-

ceived as interest or any obligation of said county, owned by said county, or held in trust for it by any board or officer, or the revenue from sales to private persons of the product of any manufacturing plant or public utility owned by said county, municipality, village or township. Said abstract shall be made out in such form and the statement shall contain such details as the auditor of state shall prescribe.

Section 3951. The "Ohio and Miami University Fund" shall be distributed and paid annually, seven-twelfths (7-12) thereof to the treasurer of the Ohio University upon the order of the president of the board of trustees of said Ohio University, and five-twelfths (5-12) thereof to the treasurer of the Miami University upon the order of the president of the board of trustees of the said Miami University. Said Ohio University and Miami University shall admit, free of tuition, all residents of this state who shall conform to the standards of admission.

Section (4105-65) Section 12. All revenue arising from tuitions, sales of products or otherwise under the normal and industrial department of said university shall be applied by its board of trustees to defray its expenses, or to increase its efficiency, a strict account of which shall be kept by the department board, and accompany the report to the governor.

Section 2. That said sections, 2820, 2820-1, 2821, 2822, 2863, 3951, 3951a, 3951b and (4105-63) section 12 be and they are hereby repealed.

Section 3. This act shall take effect and be in force from and after its passage.

INDORSED BY SENATOR MARCUS A. HANNA.

While this measure was under consideration Senator Hanna sent the following telegram to Mr. Archer:

"I have just examined your bill, No. 191. Am heartily in favor of it, and have wired some of my friends to that effect."

(Signed) M. A. HANNA.

VOTE ON S. B. NO. 191.

Senate, May 1, 1902.

Name.	Postoffice Address.	Politics.	Yes.	No.
Archer, Frank B	Bellaire	R	1	..
Burnham, Philo G	Dayton	R	2	..
Chamberlain, George H	Elyria	R	3	..
Connell, Charles C	Lisbon	R	4	..
Crites, Stephen G	Elida	D	5	..
Decker, William E	Paulding	D	..	1
Dunham, George C	Toledo	R	6	..
Echert, Peter	Cincinnati	R	7	..
Godfrey, Calvin P	Ottawa	R	8	..
Hanna, H. Perry	Gallipolis	R	9	..
Harding, Warren G	Marion	R	..	..
Harris, William S	Saybrook	R	..	..
Harrison, Orla E	Greenville	R	10	..
Herrick, John Frank	Cleveland	D	11	..
Hosea, Lewis M	Cincinnati	R	12	..
Hurst, J. Edward	New Philadelphia	D	13	..
Judson, Charles A	Sandusky	R	..	..
Krause, John	Cleveland	D	..	2
Longworth, Nicholas	Cincinnati	R	14	..
Moore, David H	Athens	R	15	..
Overturf, Norman F	Delaware	R	16	..
Patterson, Samuel L	Waverly	R	..	..
Pomerene, J. G	Cleveland	D	17	..
Riggin, Nelson A	Mt. Sterling	R	18	..
Roudebush, W. F	Batavia	D	19	..
Royer, John C	Tiffin	D	20	..
Stillwell, Newton	Millersburg	D	..	..
Thompson, William M	Columbus	D	21	..
Warner, Millard Filmore	Cleveland	D	22	..
Watts, Thomas M	Carmel	R	23	..
Wilhelm, George W	Justus	R	24	..
Wirt, Benjamin F	Youngstown	R	25	..
Yates, Ballard B	Williamsport	D	..	..
		—	—	—
Yeas		..	25	..
		..	..	2