PROCEEDINGS OF THE NATIONAL TAX ASSOCIATION
PROCEEDINGS

OF THE

SEVENTH ANNUAL CONFERENCE

UNDER THE AUSPICES OF THE

National Tax Association

(FORMERLY "STATE AND LOCAL TAXATION")

HELD AT BUFFALO, NEW YORK
OCTOBER 23 TO 25, 1913

MADISON, WIS.
NATIONAL TAX ASSOCIATION
1914
NATIONAL TAX ASSOCIATION

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1913-1914

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INTRODUCTION

For the benefit of those not familiar with the dual organization of the National Tax Association attention may be called to the fact that the Annual Conference is in a way quite distinct from the National Tax Association, under whose auspices the Conference is held.

Membership in the Association is freely open to any person interested in the subject of taxation. The Conference, however, is made up of official delegates appointed by state governors, universities and colleges which maintain a special course in public finance, and state associations of certified public accountants. No member of the association, as such, has the right to vote in the Conference. "The voting power of the Conference upon an official expression of its opinion is limited with the purpose of safe-guarding the Conference from the possibility of having its expression of opinion influenced by any class interest; or consideration for those who devote their time to the work or management of this association; or favor for those who contribute money for its support." (Section 7, Art. III of the Constitution.)

Taxation is a subject upon which such heated differences of opinion exist and upon which so large financial interests depend that the wisdom of this limitation upon the voting power will be manifest. In one sense, however, it is unnecessary. A strong unwritten law of both the Conference and Association confines their recommendations and active work to those reforms about which there is a practically unanimous agreement of experts. For the other and more debatable subjects it offers an open forum, where difficult points may be thrashed out and unnecessary differences arising from misunderstanding eliminated by means of joint study, open discussion and personal contact.

The Buffalo Conference marked the termination of a year in which the National Tax Association grew in membership
and influence. At the Conference two hundred and fifty-two delegates were registered representing twenty-two universities and thirty-one states in addition to Canada, Porto Rico and the District of Columbia. There was present also a large number of visitors, many of them members of the association, who while not accredited as delegates were deeply interested in the meetings and greatly contributed to their success.

At its regular annual meeting the National Tax Association adopted two constitutional amendments. By the first of these amendments the words "state and local" were stricken out of the constitution wherever they had been used, thus permitting the investigation and discussion of federal taxes, wherever the latter comes into vital contact with state and local taxes. The work of the Association was confined originally to state and local taxation for the distinct purpose of excluding discussions of the tariff. It is still intended rigidly to exclude the tariff question. But the federal income tax and the experiment of the federal government during the Spanish war with the inheritance tax, make it evidently desirable to leave room for a discussion of those federal taxes which impinge upon the fiscal operations of the states.

The second amendment struck out that provision of Article V which prohibited the two members of the executive committee representing the Dominion of Canada from voting on any question affecting the taxation policy of any state. The object of this amendment was to encourage co-operation between Canadian and American members and to permit the Association to derive the greatest possible benefit from study of Canadian experience with tax questions, particularly the single tax experiments.

These amendments gave concrete expression to a very general feeling that the association has arrived at a point where a considerable expansion in its activities is justified. This thought formed the key-note of President Seligman's annual address which, in accordance with the precedent established last year, is reproduced at this point although actually delivered at the third session of the Conference.
ANNUAL ADDRESS OF THE PRESIDENT

EDWIN R. A. SELIGMAN
McVickar Professor of Political Economy, Columbia University, New York

Mr. Chairman, Ladies and Gentlemen of the National Tax Conference:

It is my privilege in this, my first presidential address, to congratulate you upon the admirable work that has been accomplished during my absence in Europe by my colleagues; and at the same time to call your attention to what I conceive to be our opportunity and our task. The very fact of our meeting here to-day is a cheering sign. That evils and difficulties exist in our revenue system is undoubted; but we must not forget that all economic science and all practical statesmanship have been the direct product of difficulties and of evils. What characterizes us is at once a recognition of existing evils and a determination to overcome them.

Every movement toward tax reform, every movement of practical reform of any kind, is born of the grim resolution to grapple with existing difficulties and the hope of framing a method successfully to overcome them. When a large body of men like this considers any problem, there are bound to be points of disagreement. Human beings are so framed that no two of them think precisely alike; and society is so constituted that the ideals of various groups inevitably differ from each other. And thus it is that in an assemblage like this, environment, natural disposition, and reflection, cooperate in creating among us different ideals of taxation. Among the extremists on both sides these ideals take the form, if you will, on the one hand of the theory of ability, and on the other hand of the theory of privilege, which are thus put in a position, in my opinion, of unnecessary antagonism to each other.
What, however, has really brought us together is not our disagreements but our agreements; and fortunately for us the points of agreement are manifold and of overwhelming importance as compared with our disagreements. What, then, are the existing evils in our present revenue system as to the relief of which we are all in hearty accord? I should sum them up under four heads.

First and foremost, I should put the problem of fiscal administration. I fancy that it will be disputed by no one that if we have any system which is correct in principle, and which somehow does not work out in practical life, the fault lies with the administrative machinery. Nor need I point out to you the proverbial administrative weakness of our democratic methods. Perhaps the most striking feature of our modern political history is the beginning of the attempt to secure real efficiency. To achieve efficiency through bureaucracy is relatively easy, as European experience has taught us; but to combine efficiency with democracy is a problem of far greater difficulty. With this problem in tax reform we are beginning to cope. Whether we are dealing with improved methods of the assessment of real estate; whether we are confronted by the proper levy of a new income tax; whether we are face to face with what Sidney Webb calls the anarchy of local self-government or the more or less centralized control of local officials; in all these and many similar cases we have to deal with administrative problems of undisputed complexity. Fortunately, on these points we are all united. We recognize the need of administrative improvement; we welcome the remarkable changes that have been initiated during the past few years by our more successful state tax commissions; and we look forward hopefully to the time when administrative impotence shall have been replaced by a thoroughly elaborated combination of efficiency and economy.

The second great evil with which we have all to cope is the lack of correspondence between older theories and the modern environment. We have said that if a certain method does not work out in practice, the obvious retort seems to be that there is something lacking in the administration. If,
however, we find, as we sometimes do, that a more rigid administration on given lines only makes matters worse, rather than better, the equally obvious conclusion is that the fault lies not in the administration but in the underlying principles. With that state of affairs we have unfortunately had not a little experience; and we are only slowly beginning to realize that a new economic environment sometimes alters the conditions of an old problem to such an extent that it really creates a new problem. While we may not all be agreed as to the various details of a substantive policy, I fancy that we are all in accord that, for instance, the old general property tax as its principles are written into our state constitutions is in some way no longer in harmony with the times; and, in fact, this association has received and virtually accepted the report of a special committee on this subject to that effect. So here again, we all, I fancy, are united in the desire to strike from our state constitutions the affirmative clauses or the prohibitions which stand in the way of what we all consider a step in advance. Here, also, there is a great field in which we can all work together helpfully for improvement.

The third evil to which I should allude, is a failure to co-ordinate the spheres of more or less competing tax jurisdictions, like our localities and our states to which, since the recent entrance of the Federal Government upon the field of direct taxation, we must now add also the relation of federal revenue to local and state revenues. The history of this is, of course, simple. Our entire finances, so far as direct taxation at least is concerned, started out as local finances. They involved simply the attempt of the locality to secure a revenue for its scanty needs. It was not until well toward the middle of the nineteenth century, and in a great many states not until a generation later, that the problem of state revenue became acute, and with it the need of some correlation between state and local burdens. And now, finally, with our federal income tax, and with a suggested federal inheritance tax, and with a possible additional federal corporation tax, we are face to face with the need of co-ordinating our federal with both our state and our local system. Whatever be the views of particular individuals as to the solution of
these pressing and difficult problems, I am sure that we are all agreed in the endeavor to solve them in a spirit of justice and with due regard to the exigencies of each of the three tax jurisdictions. This comparatively recent problem is assuming greater and greater practical importance. And here again we can all unite in the hope of achieving some measure of progress.

Finally, a characteristic mark of our present revenue system is the imperfect recognition of even the desire to avoid double or multiple taxation. In the early days when each locality or each state was not only a law unto itself but a separate economic community, there was no such problem; but with the growth of corporate activity and the development of business on national lines, the problem has become increasingly acute. In the inheritance tax, in the tax on intangible personality, in the corporation tax, in the income tax, etc., the question of where the tax, and by whom the tax, should be levied raises some of the knottiest problems of our present-day life. Here again we are surely all united in the desire to avoid double or multiple taxation. In one modest part of the field indeed, that of the inheritance tax, we have drafted a model, the principles of which, as you know, are beginning to be put into practice. Whether the problem in its wider aspects is to be settled by co-operation between the states, or, on the other hand, as some of our constitutional lawyers now tell us can be done, by pressure from above,—in either case the underlying principles must be elaborated, and there is no body which can so effectively work out these principles as our own.

Thus, gentlemen, you see that in comparison with the possible differences that may divide us, the points of harmony and of agreement are incomparably more important. As I understand it, this association possesses inestimable advantages. It reflects the American belief in justice; it typifies our readiness to grapple with undoubted evils when they present themselves; and, above all, it marks our fixed determination to do the right thing when once we are agreed that it should be done.

Another reflection that is borne in upon me to-day is not
alone our unity of purpose, but the remarkable combination of theory and of practice that is here in evidence. Perhaps in none of the other existing American associations that deal with the problems of the day, is there to be seen this same rare combination. On the one hand you have the thinkers, the university professors, and the publicists, who are endeavoring to work out the fundamental principles which underlie our fiscal life; on the other hand you have not only the representatives of the public, the tax payers themselves, who feel so sensitively every change, whether for good or for evil, in revenue legislation; but you have in large numbers the administrative officials, and even the executive heads, who are charged with the difficult task of adjusting in actual life the complex relations of the individual and the government. This is not the place where we hear the wornout shibboleth of the opposition between theory and practice. On the contrary, here, fortunately, we are all united in the belief that a true theory simply expresses the actual relations between existing facts; here it is that the thinker learns the actual facts from the practical administrator; and here it is that the administrative official gets a fresh enthusiasm and a new inspiration from mingling with his colleagues and deepening his understanding of the principles that must underlie all successful administration. And in some of our most prominent state tax commissions represented here today we have not inconspicuous examples of the happy mingling and of the close co-operation of men of science and men of action.

These being our agreements and such being the conditions of unity and of co-operation, I would ask in conclusion, what should be the future scope of the association. Here I should give two answers.

In the first place, as regards the extent of our field, I should suggest a possible widening. So intermingled are the problems of our entire life now becoming that, in my opinion, we might profitably expand this association from one which studies simply state and local questions to one which considers local, state, and national questions at the same time. We call it a National Tax Association. Let us live up to our
title and while continuing to deal primarily with state and local revenues, let us consider also their relations to national revenues.

And, furthermore, while taxation is undoubtedly our chief revenue problem, shall we not face the fact that there are problems connected not only with the collection of revenues, but also with their disposal? Why should not our association take up the underlying facts and principles of government expenditure, of budgetary reform, and, for that matter, of the public debt, which in many of our states and in not a few of our cities, is now assuming such huge proportions? The extension of our scope from taxation in the narrower sense will not only enable us to attract to our fold many who are now only lukewarm, but will also enable us to exert an incomparably wider influence than has hitherto been the case.

If, then, our field may possibly be widened, what should be our method of cultivating the field? Here, of course, our object is not only that of mutual self-improvement, of comparing notes and learning from each other, of drinking periodically a fresh draught at the fountain of mutual inspiration, but above all, of the moulding of public opinion. This is true, whether we deal with our old, restricted field, as hitherto, or take up, as I suggest, a broader field. And here it seems to me that in addition to our annual conference we might profitably strike out in three new directions.

First and foremost, I believe that the time has come for an extension of our publication activities. So admirable, nay so phenomenal, has been the handling of our finances during the past year by our accomplished treasurer, that it seems to me that we are in a position to undertake this new work. What should be the precise character of this new activity is perhaps open to question. Some might prefer the publication, more or less periodical in character, of special monographs or handbooks designed to be of particular aid to administrators or to those interested in the details of practical tax reform. Others, and I confess that I count myself among them, would think that we might as an alternative, or as an addition, to the above also issue a periodical which would deal not alone with the practical side of the problem but also
with the underlying principles of tax reform. Even were it to be nothing but a journal of taxation, I am sure that it would be of the greatest possible use; for such a journal, under competent editorship, would contain not only leading articles, but would keep all of us in touch with every change of legislative activity, with every progress in administration, and with every modification of the judicial decisions. It would make each one of us realize that our association exists not only for this annual conference but for a continuous and beneficent activity.

In the second place, we ought to favor the holding of state conferences on taxation such as have been initiated in a few commonwealths, and as far as possible bring these state conferences into close touch with the parent association, thus making it possible to carry out in each state and with due regard for its particular conditions, some of the general reforms on which we are all united.

And thirdly and lastly, I feel that the association is now old enough and strong enough to create in some central place an office where not only the entire literature of the subject could be brought together, but where a competent official or staff of officials should be ready to answer any question on the general subject which may be put to him from any part of the country, and perhaps even to aid in working out model drafts of fiscal laws that may be desired throughout the length and breadth of the land.

It is obvious, however, that the accomplishment of these things will, I do not say exhaust but at all events strain, our financial resources; and I would therefore appeal to each one of you who is a member of the association and who is interested in its possibilities, to come to the earnest support of our treasurer and to aid him in the uphill, but thus far most successful, fight that he has been making to put us on our feet. With adequate support this association can become a great power for good; but without your support, your active and loyal support, our efforts will necessarily be restricted.

This, gentlemen, is my analysis of the reasons why we are here and how we should pull together. I trust that I am not
visionary and that I am not cherishing any vain illusions; but I venture to express the opinion that if we choose to seize the opportunity which is now before us, we shall be able to contribute in no small measure to the progressive solution of some of the greatest problems that confront the American public; and that we shall thus be able to do our share in helping on the advance of that ardently desired reign of justice for which every true patriot is striving.
FIRST SESSION

THURSDAY MORNING, OCTOBER 23, 1913

ORGANIZATION OF CONFERENCE

1. CALL TO ORDER.
   Temporary Chairman,
   William H. Sullivan, Member State Board of Tax
   Commissioners, Albany, New York.

2. ADDRESS OF WELCOME.
   Hon. Louis P. Fuhrmann, Mayor of Buffalo.
   Jacob Gould Schurman, LL.D., President Cornell
   University.

3. RESPONSES.
   Mr. Allen Ripley Foote, Honorary President, National
   Tax Association.
   Mr. Lawson Purdy, President Department of Assess-
   ment and Taxes, New York City.

4. APPOINTMENT OF PERMANENT CHAIRMAN.
   Zenas W. Bliss, Chairman Board of State Tax Com-
   missioners of Rhode Island.

5. ADOPTION OF RULES.
ORGANIZATION OF CONFERENCE

President E. R. A. Seligman: Gentlemen, the conference will please come to order. It gives me great pleasure to call to order this Seventh National Conference on State and Local Taxation and to express to you my feeling of appreciation for your kindness in coming from so far a distance as many of you have done. I think we are to be congratulated in having so full an attendance and so admirable a representation of the various interests. There is nothing left for me at this moment except to introduce the temporary chairman, Honorable William H. Sullivan, a member of the state board of tax commissioners of New York.

Hon. William H. Sullivan, of New York: Mr. President and Gentlemen of the Conference: To be chosen on the occasion of my first participation with the members of this conference to preside for a time over your deliberations is an honor which I appreciate deeply. I was told by the gentleman in charge of the organization of this meeting that no speech would be expected from me and I can see a look of satisfaction upon your faces at that event. I think everything has been prepared by the officers in charge, and in order that your expressions might be perfectly clear, the treasurer has provided all members with cough drops. It gives me great pleasure to present to you the Honorable Louis P. Fuhrmann, Mayor of the City of Buffalo.

Hon. Louis P. Fuhrmann: Ladies and Gentlemen, I am very glad to come here this morning and bid you welcome to the city of Buffalo. I am not here to make a lengthy address. I realize that you are busy men and that you have before you matters of more vital concern than listening to words which are necessarily more or less remote from your main purpose.
However, you have honored the city of Buffalo with your presence and we appreciate the significance of your coming. You are entitled to and I know that you do receive the well wishes of Buffalo's 450,000 patriotic people; each and every one of us joining in the hope that the sessions of this convention will be a success, and of lasting benefit to the city of Buffalo. And as this is a great convention, it is well that the sessions of 1913 are held in a great city, for Buffalo is a great city from every point of view.

Buffalo is a great city historically. It is the city of Millard Fillmore and Grover Cleveland; it is the city of the great free soil convention of 1848, the convention which first flung to the breeze the banner of free soil, free speech and free men. It is the city of the Pan American Exposition of 1901. Buffalo is a great city commercially; it is a great city industrially; it is a great city racially, composed as it is of all the nationalities of the world. We are living here in peace and good will. We are tolerant and we are charitable. We realize there is room enough for us in Buffalo and hundreds of thousands of more like us, as soon as we can attract them here. While those things are great, Buffalo is greater still, because of the character of its people, exemplified in the objective things of life. We are second to no other city of this country in our playgrounds, our schools, our churches, and the thousand and one other things that go to make up the material environment of life.

This, ladies and gentlemen, is the city whose hospitality is extended to you this morning. We are glad to have you with us. We wish we could always keep you here. Take a little time from your sessions and get acquainted with the people of Buffalo. [Applause.]

Chairman Sullivan: In a neighboring city of my native town in the central part of New York there is an institution of learning of which not only the state of New York but the nation is justly proud, and it gives me pleasure to present to you at this time the president of Cornell University, Doctor Jacob Gould Schurman.
President Jacob Gould Schurman, of Cornell University:

Gentlemen, the mayor has welcomed you to the city and has spoken eloquently on behalf of the city. I have not permission to represent either the state or any divisions of the state, or the sisterhood of universities which have sent delegates to the convention. Nevertheless I am quite confident that the intelligent people of our state, and especially those who think much of taxation, will give cordial welcome to the deliberations, discussions and recommendations of this conference. There are a good many aspects from which your work might be contemplated. I will confine myself for a few minutes of the time which I propose to occupy to two reasons why Americans should welcome the work of this conference.

We are especially interested in the first place in the work of this conference because it marks the passing away of the methods of rule of thumb in government in general. Taxation is the most potent and vital function of government. It is the right which the government has to take private property for public uses. When the country was small; when its interests were unimportant; when our cities were few, the rule of thumb methods could be followed in all the domains of government without entailing bankruptcy. But our country is now so large, its population so great, its cities so numerous and so vast, its interests so extensive, that it is absolutely impossible to continue the rule of thumb method in fulfilling any of the functions of government and especially the great function of taxation.

One of the cheering signs of the times is the readiness of the public to welcome the expert. Some states have made more advance than others, but everywhere to-day, from Atlantic to Pacific, it seems to me I discern a new readiness on the part of the public to listen to the expert who has any advice to give in matters of government. And the expert again consists of either one of two classes. He may be the scholar, the scientist, the investigator, whose home is his study or his institution. The American public in the past has had a good deal of suspicion of the theorist but the time has arrived when it is ready to listen to the scientific investigator. Secondly, the other kind of expert is the practical
man who is working in the fields of taxation as administrator, to whom the American public has always been ready to listen. It is a characteristic of the age in which we are living that the public are ready to listen to both kinds of experts—the practical man who is engaged in administering the laws of taxation and the student, scientist and investigator, who is carrying on studies in his own laboratory or in his own home. This conference is made up of both classes of investigators. For that reason its recommendations will carry the greatest possible weight with the state of New York and the people of the country. That is the first reason why I am peculiarly interested in welcoming you here.

The second point which I wish to make is this. We have reached a period when the rising tide of taxation is coming to be portentous, if not alarming. Mayor Fuhrmann has told you something of the glories of Buffalo—and I am sure he has said nothing which is undeserved—but I read in a morning paper that in a political speech delivered last night the mayor's administration is charged with raising taxation here one year after another continuously. I have no doubt in the proper time and place the mayor will be able to deal with that criticism, and I say nothing more about it except that whether taxes have been levied here wisely or not, whether expenditures have been unnecessarily extravagant or not, it is a fact that everywhere the tide of taxation rises, and it is rising because we are demanding new functions of government in the complex state of society into which we have come in this twentieth century of Christian civilization. [Applause.]

With a minimum of governmental functions we insisted on the preservation of peace and order, the administration of justice and a few other elemental requirements. To-day our reformers are demanding that public bodies, municipalities, states and nation shall enter the field of positive beneficence. They preach the gospel of help on the part of the state, directly or indirectly, to the poor, the destitute, the oppressed. Our hearts all respond, I am sure, to this humanitarianism. Unfortunately the preachers confine themselves to ideals. They do not trouble themselves about the material resources required for carrying out and realizing those ideals.
Governments and public bodies must, however, face that question. The point I make is, that they are absolutely incompetent to deal with it to-day without expert advice—such as this conference affords. [Applause.]

If the tide of taxation is rising and going to rise, you gentlemen will have to tell us whence new sources of income can be secured for the state and other public bodies. If the demands for the constant extension of the functions of government into new fields are to be heeded and acted upon, you gentlemen will have to tell us how far it is financially possible for a state, supposing it is ready to commit itself to this theory of the functions of government, to go in the direction of carrying out such humanitarianism.

For that reason as well as for the other I have mentioned, I consider it extremely opportune that this body, made up of theoretical investigators and practical administrators, should meet in this great city of Buffalo; and I feel, Mr. Chairman, the deepest conviction that there is no other class of men in our community to-day—no man like these theoretical and experienced experts in the field of taxation—who can solve the serious and weighty problems of taxation which are now pressing with a gravity never before experienced upon the people of this state and the people of the United States of America. [Applause.]

Chairman Sullivan: Gentleman, the credit for organizing this association belongs more to the gentleman next on the program than to any other man. It gives me now great pleasure to introduce to you Allen Ripley Foote, the honorary president of this association, and its first organizer, who will respond in behalf of the National Tax Association.

Mr. Allen Ripley Foote: Mr. Chairman, Mr. Mayor, Mr. President and Gentlemen, I am keenly sensible of the honor of responding to your addresses. For your words of welcome we render thanks. For your words of wise suggestion we express appreciation. The trend of events in the field of taxation in this country is in the direction of better administration. In every state there is a sensible feeling that the
tax laws themselves need much improvement, but experience has demonstrated that a poor law well administered is better than a good law poorly administered. And to have effective administration we must have permanency as far as tenure of office is concerned for those who undertake the work. The work must be made a profession from the initial point of the township assessor to the head of the state department. Under no circumstances should it ever be permitted in any state that the work of assessing property for taxation should be exploited for commercial purposes or as a partisan political asset. Avoid those things; seek permanency in the tenure of office. When a man has been appointed in the service at the initial point, let him know that efficiency in that service means continuous service, continuous appreciation and promotion. When this is done, and to the extent it is done, the laws of the state will become greatly improved. They will be improved because the state will have a body of experience and suggestion that will furnish a sound basis for their improvement. It can come in no other way. Gentlemen, I feel great gratification, more than I can express, more than I think any of you can appreciate, at the evidence here given of the progress made by this association, of the progress made during its last year. I can have no greater satisfaction for the work I have done in behalf of this movement than to know that I have builded better than I knew; that the association is to-day stronger, more efficient and more active than I ever dreamed it might be in the short time of its life. I bespeak for those who shall in the future manage its affairs continuous, cordial support, co-operating in every detail in every way with every one having to do with the subject of taxation in the various states. I thank you. [Applause.]

Chairman Sullivan: Among those who are interested and deeply learned in the subject of taxation, I see before me the presiding member of the board of tax commissioners of the city of New York, Mr. Lawson Purdy, upon whom I take the liberty of calling for a few words.
Mr. Lawson Purdy, of New York: Mr. Chairman and Gentlemen, when the president of the association asked me to say a few words of response he said it seemed more fitting that one from a state other than New York should respond to the address welcoming you to this state, but after all the response is from the association and as I have been one of the members of the executive committee since the founding of the association perhaps it is not inappropriate that I make response to the address of welcome to the state of New York.

When the executive committee of the association has considered from year to year where the next conference should be held, it has always been urgently invited to come to various parts of the United States; and the pleas for the holding of the conference at this place or that have always been of two kinds. But far more stress has been laid on one kind of plea than on the other. The plea has been, "Come to our state because we do so much need enlightenment." But sometimes we have been told, "We are making progress; come and see the progress we are making; that what we are doing may be helpful to the other states in the union." When it was decided that the conference should be held in the state of New York, it remained true that the most forceful plea that could come to the association was upon the ground that the state of New York needed the conference for its own enlightenment. But it is also true, as it has been everywhere that we have gone, that New York has something to offer for the study of the other states of the union.

Here we are in the city of Buffalo—and Buffalo led the way for this part of the country in the assessment of real estate while our neighboring state of Massachusetts for many years had been analyzing real estate assessments and showing the taxpayer how much he was charged for his land and how much for his buildings—in the state of New York and the state of New Jersey that was not the rule—but here in Buffalo more than forty years ago that analysis was made, and our old state board of assessors of the state of New York—now the state board of tax commissioners—in report after report commended Buffalo and held it up as an example worthy to
be followed by the rest of the state of New York. And that commendation of the board of tax commissioners of the early seventies had its weight with the legislature of the state of New York when it enacted for the cities of this state the rule similar to that which had been in force in Massachusetts. So right here, the city of Buffalo has had something to give to the rest of the state of New York and to other states in the way of example which we may well follow. I won't attempt to tell you in what respects New York may well be copied nor in what respects New York offers a "horrible" example of how not to do it. You will probably hear during these two days, when you hear from New York men, something of commendation for New York and something of despair that conditions are as bad as they are.

As we have held these conferences year after year in the different cities of the country and once in Canada, nowhere have we gone that we have not found something of value, and nowhere have we gone that we have not found something of experience, indicating what should be avoided; and the informal conferences that we have had one with another—of what immense value have those been—these acquaintances of New York men, Connecticut men and Massachusetts men with the men from Colorado, Illinois, California, Washington, Oregon, and from Florida and other states of the south—these informal conferences when we have swapped experiences—of what incalculable value these may be no one can measure. We have all gone home stimulated by the feeling that other men were putting the best they had in them toward the solution of the theoretical and practical problems of gathering revenue to carry on the business of the United States. [Applause.]

Chairman Sullivan: The next order of business is the organization of the conference. It gives me pleasure now to introduce the permanent chairman of the conference, Honorable Zenas W. Bliss, chairman of the board of state tax commissioners of Rhode Island and a former lieutenant governor of that state—Mr. Bliss. [Applause.]
Honorable Zenas W. Bliss, Permanent Chairman of the Conference: Mr. President, Chairman, members of the conference, ladies and gentlemen: I hardly know how to express my appreciation for the honor conferred in selecting me to be the permanent chairman over your deliberations. It has been my good fortune to attend five of these conferences and they have been of the greatest encouragement and assistance to me. One of the reasons why I so greatly appreciate this opportunity to be of service to the conference, is the fact that these conferences have been of so much service to me. The regular business before the conference at this time is the election of a secretary.

[Mr. T. S. Adams was elected secretary of the conference and appointed Mr. Charles A. Andrews, of Massachusetts, assistant secretary.]

Chairman Bliss: It is customary for each conference to adopt its own rules which are usually suggested by the executive committee and I now call for the rules from the executive committee.

Secretary Adams: As explained by the chairman it has been customary for the executive committee to suggest to the conference the rules of order under which it should proceed. There is of course no objection to amending the proposed rules. The Executive Committee of the National Tax Association makes the following recommendations:

Program and Rules

That the program as printed and distributed be adopted and followed with such modifications as may be required by reason of absences, vacancies or other causes.

The usual rules of parliamentary procedure shall control.

Each Speaker shall be strictly limited to twenty minutes for the presentation of a formal paper. He shall be warned two minutes before the expiration of such period. The time of a speaker may be extended by unanimous consent of those present.

In general discussion each speaker shall be limited to five minutes and no person shall speak more than once during the same period of discussion until others desiring to speak have been heard.
Voting Power

The voting power of the Conference upon any question involving an official expression of opinion, shall be vested in delegates in attendance appointed by governors of states, by universities and colleges or institutions for higher education and by state associations of certified public accountants.

Each state shall be entitled to three votes, each college or university one vote, and each association of accountants, one vote.

No person shall have more than one vote by reason of his appointment as a delegate from more than one source.

The voting power shall be ayes and nays, unless a roll call be demanded.

On all other questions the voting shall be by vote of all in attendance.

The receipt of reports made to this conference by committees of the National Tax Association shall not be considered as expressing its opinion on the subjects treated.

Committees

(a) A committee of three on credentials to be appointed by the chairman, who shall designate the chairman of such committee.

(b) A committee on resolutions, composed of one delegate from each state. The chairman shall designate the chairman of this committee, such person to arrange for its organization.

All resolutions involving an expression of opinion of the conference on the subject of taxation, or their subject matter, shall be read to the conference before submission to the committee, and shall be immediately referred without debate.

The committee on resolutions shall post all resolutions to be presented by it to the conference not later than the end of the session immediately preceding the one at which they are to be acted upon.

[After discussion the above rules were adopted. The chairman appointed Professor C. J. Bullock, chairman of the committee on resolutions, and the following committee on credentials: Mr. A. E. Holcomb (chairman), T. S. Adams and C. A. Andrews.]
SECOND SESSION

THURSDAY AFTERNOON, OCTOBER 23, 1913

CHAIRMAN—ZENAS W. BLISS, RHODE ISLAND

Program

1. The Machinery of Assessment as Proposed in New Jersey.
   Carlton B. Pierce, Chairman New Jersey Commission to Investigate Tax Assessments, Cranford, N. J.

2. Term, Salary and Method of Selecting Assessors.
   Daniel M. Link, State Tax Commissioner, Indianapolis, Ind.

3. Frequency of Assessment.
   Charles Lee Raper, University of North Carolina, Chapel Hill, N. C.

4. Discussion.

5. Equalization Boards, Methods and Possibilities.
   J. Frank Adams, State Tax Commissioner, Denver, Colo.

6. The Assessment of Intangible Property in Ohio, under the Uniform Rule.
   Oliver C. Lockhart, Ohio State University, Columbus, O.

7. Discussion—Intangible Property.
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THE MACHINERY OF ASSESSMENT AS PROPOSED IN NEW JERSEY

CARLTON B. PIERCE
Chairman New Jersey Commission to Investigate Tax Assessments

Mr. President and Gentlemen:

In 1912 the legislature of New Jersey provided for the appointment of a commission to investigate the methods of making tax assessments within the state.

The commission held public hearings, examined assessors and taxing officials, and submitted a report to the last legislature with a series of bills intended to improve the existing situation.

Before considering the bills, a brief statement of the conditions found, may be of interest. The illustrations are directed solely to the point of equalization.

In Camden County, a highway separates taxing districts assessed at different ratios; the lower assessed side has been built up and developed, while the land across the road remained unimproved.

In Elizabeth, the main street is the boundary line between districts. The commission was informed the less valuable side of the street is assessed higher than the more valuable side.

In a rural community, two assessors assessed the same parcel, each supposing it to be in his district. One returned it at $350 and the other at $1,050.

In Asbury Park, we were informed by the mayor in a statement intended as conservative, that cottages and small properties are assessed at seventy per cent of value, business and hotel properties at thirty to fifty per cent.

After visiting each county in the state, the tax commission made this general finding of fact:

"The ratio of assessment to value varies in different districts, and frequently between taxpayers in the same district,
the variance ranging from thirty per cent of value to full value and above.'"

The finding refers of course to general conditions, the report giving full recognition to excellent work done in numerous districts, particularly the cities, and notably in Newark whose system commands the approval of experts within and without the state.

The Cause

The fundamental trouble in New Jersey, is the fact that the present system of assessment, is less a system than an aggregation of detached units. The units (taxing districts) are working largely independently, with imperfect control by the county boards, and less by the state board of equalization. There is no proper continuity of authority from top to bottom. The result is detached work, frequently good but lacking equalization.

The Remedy

In applying a remedy, the tax commission started with a principle—that as the work of assessing property is a business proposition, it should be put upon a business basis; a central authority at the top subject to change of administration, but the routine work to be kept in a permanent body of trained employees, secure in their position and free from political or other influence.

Changes in the existing system have been recommended only so far as essential to make certain the securing of efficient work upon a correct basis. No change has been made for the sake of change. We already possess in New Jersey, a central board at the head of the system, and a county board in each county, and these features, slightly modified, are retained. The substantial changes recommended are, adding proper control from top to bottom, supplying a backbone to the system through the suggested state supervisor and county assessor, and substituting for the elective assessor, a body of trained field men, each with a district large enough to take his full time, giving his full time, properly paid, and removable only for cause.
Outline of Plan

An outline of the proposed plan follows: It includes
(a) A central head—The Board of Equalization of Taxes of New Jersey.
(b) A state supervisor of assessments.
(c) A county assessor in each county.
(d) A county tax board in each county.
(e) Local assessors.

The board of equalization is composed of five members, appointed for five year terms, one expiring each successive year. The board is placed in complete control of the situation, with adequate authority up and down the line. It is to issue uniform rules for the guidance and instruction of county and local assessors, formulate standards or units of value for different classes of property, and prescribe standard forms for books, bills and papers. It is the final court of appeal. It may on complaint or of its own initiative, investigate and correct any matter connected with the service, and after notice and hearing, dismiss for cause, any subordinate official or assessor.

The state supervisor of assessments stands at the head of the routine work of the department. He is appointed for five years, must give his full time to his office, visit and advise with the county assessors, execute the instructions of the board of equalization, and be responsible to the board for equalization between counties, and the general efficiency of the system.

The county assessor is at the head of the routine work of the county. His term is five years, his full time must be given, and he is responsible for equalization within the county and for the efficient discharge of their duties by the local assessors.

The county tax board is composed of the county assessor and two side members. The duty of the board consists mainly in holding stated meetings throughout the county after the tax books are open, for the purpose of correcting errors on informal complaint, and sitting as the first appellate court.
With the county board at these hearings, sits a local man appointed by the local authority in the district, the object being to give local representation and the advantage of local knowledge in adjusting local questions.

The most important suggestion made by the commission, the plan for local assessors, is in substance the extension of the successful Newark plan to the rest of the state. The county assessor first divides the county into assessment districts, sufficient in size to require the full time of an assessor. The division of course, is for the purpose of assessment only. The assessors are then appointed by the county tax board from eligible lists submitted by the civil service commission. Preference is given in each district to residents of the district, and experience in assessing or appraising property county fifty per cent in the civil service examination. The result as demonstrated by years of experience in Newark, is the acquiring of a trained body of competent men, secure in their position, free from political or other influence, making their work a business, and accountable only to their superiors for efficiency in their work.

Objection has been made, that abolishing the elective assessor is an interference with home rule. The objection fails to recognize the proper relation between home rule and equalization. Home rule is the right to control matters that exclusively concern the district. But the assessment of property does not exclusively concern the district. So long as there is a county tax, each district is interested in the assessment of every other district. Should each locality be supreme in its own assessment, equalization throughout the county would be impossible. The ideas of local supremacy and general equalization are diametrically opposed.

Home rule has its place in taxation, but it is properly limited to determining the amount of local expenditures. Where equalization is necessary, the home or unit must be the full territory equalized, whether county or state.

Local knowledge is undoubtedly an advantage in local assessments. The proposed plan secures this by taking the assessor from his home district, and local rights are further protected by having a representative, appointed by the local
authority, sit with the county board in determining local questions.

This sketch completes the general plan. The cities of the state conform in the main to the general plan, and with two exceptions specially provided for, retain their present systems undisturbed.

In New Jersey the accepted method of appointment to office, is by the governor with the advice and consent of the senate. This method is used accordingly, for members of the board of equalization, the state supervisor, the county assessors and members of the county tax board. To keep the situation as free as possible from political or party domination the county boards and board of equalization should be made bi-partisan.

In point of expense, careful estimates have been made and the total expense of the proposed plan is a trifle less than the aggregate expense of the present system.

In addition to the foregoing administrative scheme, the tax commission submitted five companion measures, covering the following points:

The first proposes to do away with the practice now common in taxing districts, of paying current expenses with borrowed money. The suggestion is, to fund such existing indebtedness, devoting the incoming tax receipts to the expenses of the following year. As the moneys are not all needed at once, the plan permits deferring payment of half the tax to the last half of the year.

A second measure abolishes the state board of assessors, now vested with the duty of assessing railroad property, and turns the work over to the board of equalization.

A third places in the hands of the board of equalization, the duty of assessing utility properties throughout the state. We are fortunate in New Jersey in having a utilities commission with rate-making power. To determine the rates, the commission is gradually acquiring appraisals of utility plants, a substantial part of the work having already been accomplished. The suggestion of the tax commission is, that to avoid duplication of work, these data, with statements furnished by the companies, and information acquired by the
boards own experts, be submitted to the board of equalization, who shall thereupon, after notice and a hearing, make the assessment. The respective amounts assessed to each taxing district are returned to the district and go upon the assessment roll, the result being an assessment by experts of property requiring expert knowledge.

A fourth measure provides for the uniform assessment of banks and trust companies, now practically escaping taxation.

The final measure provides for compulsory tax maps throughout the state. This measure became a law last winter, and its importance and novelty justify description.

Under the act (Chap. 175, Laws 1913) cities, boroughs, villages and towns must furnish accurate maps within two years. Existing maps approved as adequate by the board of equalization, are permitted to stand. Where new maps are required, unless work is commenced within six months, the board of equalization furnishes the maps, at the expense of the taxing district.

But the novel feature of the bill, is the plan for maps in rural districts. We have a complete geological survey in New Jersey, with maps accurately locating highways and streams. Under the bill, the state furnishes outline prints from these maps, and the local assessor is required to fill in the tax parcels with such data as to area and dimensions as are available. The map is then publicly posted for correction, and when complete to the satisfaction of the board of equalization, is certified by the board as the official tax map of the district. Compensation is awarded the assessor for his work, not exceeding $100 for filling in each map. If the district fails to act, the board of equalization makes the map at local expense.

If the plan proves as successful as is anticipated, we shall have a complete system of state tax maps at nominal expense.

It is fair to say, the plan proposed was not invented by New Jersey. It originated with an every-day assessor in Westchester County, New York, who made such a map for his own use, later submitting it to the taxing officials to their great interest and satisfaction.

Just a word in conclusion. It is a matter of regret to the
writer, that this discussion concerns proposed legislation rather than an existing statute. But there is this to be said. Without passing upon details, the general plan offered received the cordial approval of President, then Governor, Wilson, later of his successor, the acting governor now a candidate for election and still later of a second candidate for the governorship. Moreover, revision is promised in the state platforms of two of the three contending parties. The tax commission is hopeful in view of these declarations, that the substance of the proposed legislation, will find its place upon the statute books.

I am obliged for your attention. [Applause.]
TERM, SALARY AND METHOD OF SELECTING ASSESSORS

Daniel M. Link
State Tax Commissioner, Indianapolis, Ind.

In discussing this subject one has to keep sharply in mind the eternal conflict between theory and practice in matters of taxation. It is utterly useless to idealize, or to waste any time on speculative or purely theoretical measures. This Association is dealing with questions of pressing importance; and a practical solution of these questions is the aim of every member. There are certain fundamental defects in the body politic and certain congenital defects in the individuals composing that body that constitute controlling factors in the consideration of any system of assessing which can be devised.

The subject does not lend itself well to treatment in the order in which it reads. The last phase, namely: "The Method of Selecting Assessors," is of primary importance. Here the doctrine of home rule and the question of efficiency and equality in taxation meet in irreconcilable conflict. People do not like to be taxed, and if they must be taxed, they would rather be taxed by their neighbors and friends. They object to being taxed by foreigners or by officers in whose election they have no voice, or with whom they have no influence. And yet, under the general property tax system, no assessment ever has or ever will approximate equality without adequate outside supervision. There are two reasons for this: First, it is too much to humanly expect local assessors to be indifferent to the selfish demands of their constituents, and particularly those of their constituents who are of political importance to them. Secondly, the question of efficiency is very seldom the determining factor in the election of an assessor. Thus, somehow, there must be devised a remedy for this situation; one which will to a reasonable extent offset
METHOD OF SELECTING ASSESSORS

partiality and inefficiency, and at the same time not openly do violence to the cherished tradition of a free people that they have the right to regulate their domestic affairs as they see fit. This question of adequate administrative machinery is and has been the despair of all officials who have had to do with the general property tax. Centralization in governmental affairs is anathema to most people and the well of legislative ingenuity has been sounded to its depths and pumped dry in fruitless efforts to do indirectly that which the tax payer will not tolerate to be done directly. Hardly any two states have even approximately the same system, and in no state, so far as I am informed, is the situation entirely satisfactory.

This question has received a great deal of attention in recent years at the hands of tax officials and there seems to be entire harmony upon one point, and that is that there must be greater centralization of authority. This has been worked out in different ways in different states, each progressive step being bitterly contested.

Even the suggestion of the institution of a county assessor system in Iowa caused almost as much feeling as a presidential election. This inherent antipathy of the great mass of people against what they regard as the publicans of public finance seems as intense as in the time of Herod when the ordinances of the Rabbis, forbade their testimony being received in court, or that gifts be accepted from them in charity.

The accumulated experience of tax commissions and the educational influence exerted by tax conferences, tax associations, and other public associations dealing in the problem of taxation, are gradually bringing about a better understanding of the revenue system by the general public.

In the Nineteen Hundred and Eleven meeting of the National Tax Association the Committee on Administration of Laws for the Taxation of Property, after discussing the local assessor, Board of Review, and methods of making assessments, summed up as follows:

First, That the present administration of the general property tax, from which seventy-five per cent. of state and local revenue is derived, is unsystematic, antiquated, and unequal.
Second, That substantial improvement can be secured only by improving the ordinary local assessment work.

Third, That this can best be done by such readjustment of local assessment systems as will insure to local assessors better pay for their work.

Fourth, That where practicable local assessment districts should be made sufficiently large to justify the employment of the whole time of a competent assessor.

Fifth, That a central supervisory board, that will furnish advice and help to local assessors either directly or through a district supervisor, can secure great improvement in the original assessment work and minimize inequalities.

Sixth, That full publicity of assessment matters, both of the details of local assessment rolls and by comparative statistics issued by the central supervisory body, will also help to improve local administration.

The North Dakota Tax Commission in its Nineteen Hundred and Twelve Report says: "The trend of the age in all the administrative departments of government is toward the centralization of authority in the hands of a few officials who can be held directly responsible either to the executive or the people themselves.''

While in many of the states the County Assessor is elected, the general belief among tax experts is that better results have been obtained in the states where the County Assessor is appointed by the Board of County Commissioners, with the advice and consent of the Tax Commission. The County Assessor should have the authority to not only select his assistants, with the advice and consent of the County Board, but he should be able to remove them with the advice and consent of the same body, subject, however, to review by the Tax Commission.

The Colorado Tax Commission in its Nineteen Hundred and Twelve Report says: "The best method of making the assessment of property for taxation would be to have the local assessors appointed by the Tax Commission or some other state authority. This would introduce at once a system of uniformity and eliminate much of the injustice that now prevails. However, the time has apparently not yet come for so radical a change in the system of local government."
The Board of Equalization of Taxes of New Jersey in 1910 recommended small non-partisan boards of assessors to be appointed by the government.

Oklahoma has abolished Township Assessors and Township Boards of Equalization. Elective County Assessors are to do the entire work of assessing for a compensation based upon a percentage of the assessed valuation. Out of this they must pay their deputies. The County Commissioners are made a Board of Equalization with summary power to correct the roll subject to appeal.

West Virginia has a similar system, while Kansas, New Jersey and Wisconsin have County Supervisors.

In North Carolina the Corporation Commission, which performs the duties of a tax commission, appoints county assessors in each county for a two year term. Each county assessor has general supervision over township and city assessors. He is to devote not to exceed three months to the work and is paid four dollars a day.

My time does not permit a review of the systems in vogue in all the states. The references given are for the purpose of emphasizing the lack of harmony in working out the principle of centralization.

Wisconsin has, as usual, been the leader in tax reform. Assessors of Income, with supervisory powers over all assessments, are appointed by the Tax Commission for a term of three years at such compensation as the Tax Commission may fix, such compensation including expenses not to exceed five cents for each $1,000 valuation of property. The supervisors by and with the advice and consent of the tax commission may appoint deputies.

There is very little left to criticize in the Wisconsin system. It is to be regretted that other states are not yet ready to adopt the beneficial features of this system. In Iowa the proposal to create the office of county assessor precipitated a controversy as bitter as the Mulet law fight.

The Indiana plan was for many years thought to be the best in existence. It stands to-day as a fine example of the renaissance style of tax architecture, and with a few modern improvements, would regain its former prestige.
This plan, briefly stated, is this: The assessing unit is the township, with a Township Assessor elected for a period of four years. The Township Assessor appoints his own deputies, who receive two dollars a day for the time actually employed. The amount to be expended is limited by the annual appropriation of the county council. In townships having a population of less than five thousand the township assessor receives two dollars and a half a day for the time actually employed during the assessing period, which lasts from the first day of March to the fifteenth day of May. In townships of over five thousand the Township Assessor is paid according to population; the highest salary paid being $3500 which covers all the services rendered during the year.

The County Assessor is elected for a term of four years and receives compensation graded according to population. The salaries range from $500 to $2500. The statute does not require his constant attendance upon his official duties and the amount of time he devotes to his office is largely a matter of discretion with him.

The County Assessor has immediate supervision of all township assessors. He is required to advise and instruct them with reference to their duties and to visit each township during the months of April or May each year. He also performs the duties of a tax inquisitor and acts as expert adviser to the County Board of Review. During the year 1911 County Assessors placed on the tax duplicates nearly $13,000,000 worth of omitted property, and in 1912 over $10,000,000 worth.

The County Board of Review is composed of the County Auditor, County Treasurer, County Assessor, and two freeholders appointed by the Judge of the Circuit Court. The Board equalizes township assessments, reviews all individual assessments, with power to raise or lower the same, hears appeals from township assessments, assesses all banks and other corporations assessable locally, and has power to add omitted property. The length of its sessions depends upon the population of the county, the range being from twenty to forty-five days. The members receive three dollars a day for their services.

The State Board of Tax Commissioners is composed of five
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members, viz: the Secretary of State, the Auditor of State, and three commissioners appointed by the governor for terms of four years at a salary of $3000 a year and expenses. This Board assesses railroads, telegraphs, telephones, express, transportation, and pipe line companies, and has general supervision over the assessment and collection of taxes, and all assessing officials, hears appeals from Boards of Review, and equalizes the assessments of property as between the various counties of the state.

The active work of the assessing year begins the first week in January when the Tax Commissioners hold a three day conference at the capitol with all the county assessors of the state. Following this, twelve district meetings are held with county assessors, auditors, treasurers, and such other taxing officials as can be induced to attend. At these meetings counties can be compared in more detail. After these district meetings each county in the state is visited by at least one Commissioner and a conference held with the County Assessor, Auditor, Treasurer, Township Assessors, and their deputies, and such other persons interested in taxation as desire to attend.

It would be difficult to devise a more complete, yet practical, system than the one just described, yet actual experience has demonstrated that it has certain serious defects, and these defects involve each one of the three phases of the subject allotted to me.

First. It will be noted that while each assessing officer has extensive supervisory authority over the assessing officers subordinate to him, that authority is more persuasive than coercive. The only action that can be taken is against the property unduly assessed and not against the officer who makes the undue assessment. This assurance of freedom from personal consequences for dereliction of duty encourages inefficiency, partiality, and a loyalty to the interests of constituents greater than a sense of official duty.

This is particularly true of the County Assessor, whom I regard as an indispensable cog in our taxing machinery. Through him the state board keeps in touch with the conditions in his county. He should be the personal representa-
tive of the state board and one in whom the board has entire confidence, and on whom it can implicitly rely. He cannot be insensible to the fact that he is an elective officer with all the obligations that an election carries with it, nor that his interests lie with his constituency rather than with the state board.

The County Assessor should be appointed by the State Board for a period of four years, which in our state corresponds with the period of real estate assessments. His appointment should be based solely upon merit and efficiency and he should be removable by the appointing power for dereliction of duty. He would be freed from the paralyzing blight of local influence. He would be able to coerce equality in local assessments by appeals to the County Board of Review and if necessary to the State Board. He has the right to take such appeals now but it is not usual to find one carrying a contest beyond the County Board of Review.

Second. Another defect demanding serious attention is the total failure of the township assessor system as applied to large cities. In townships where the population is small the financial standing of the inhabitants, property values, especially of real estate, and the general fiscal affairs of the community are matters of common knowledge; but in large cities the complexity of business affairs, the fluctuations in the value of real property, the general lack of acquaintance of the inhabitants outside of their immediate business or social circles, and the ease with which personal property, and especially intangible personality, can be sequestered, the kind of an assessment we get is too much like passing the hat. Where portions of a city are in different townships the situation is made worse by the rivalry and difference in the basis of assessment of the assessors. The City of Indianapolis furnishes a fair illustration of this criticism. The Township Assessor of the township in which the principal part of Indianapolis is situated employs during the assessing period something like one hundred and eighty deputies. As these men are employed for only a short period and get but two dollars a day, less than the rate for common labor, they are just what you might expect them to be. It is no un-
common thing for several of them to quit without notice at the end of a week and fail to even turn in their assessment sheets. Under our law assessors collect dog tax direct and if the deputies who quit get enough dog tax collected in to pay them their wages they sever their official relations without any formalities. Fortunately, Indianapolis has an unusually efficient township assessor who secures remarkably good results considering the conditions under which he works. The assessment of real estate, to which he has given special study and attention, is based upon a system which is a model of its kind.

The assumption of the legislature in enacting this law that the township is the natural unit for taxation is true so far as rural townships are concerned; but it is not true where townships embrace within their boundaries, in whole or in part, large cities. In such cases the municipality is of paramount importance. It presents an assessing problem of too large and important a character to be handled by an improvised, untrained, and underpaid staff of assessors. It requires expert and comprehensive treatment which can be given it only by a bureau of well paid, trained men of continuous employment. The organization of such a bureau should be protected as far as possible from political influence. Its chief executive should be appointed by the local government under such safeguards and for a long enough term that it would attract men of efficiency and integrity.

Beyond these suggested changes in the manner of selecting county and city assessors, I would not go, however desirable it might seem as an improvement in the administrative machinery. Some of the ills we now bear we cannot at this time, if ever, fly from. With a capable County Assessor to direct and superintend the assessment of property, the greater part of the troubles we now have would disappear. With a four year term and a reasonable assurance of being continued in office as long as his services were satisfactory, he would become so expert in the knowledge of values in his bailiwick that unjust assessments would be the exception rather than the rule.

Undoubtedly the ideal system would comprehend machinery
as independent of local influence as the internal revenue department of the federal government. This is an ideal which can only be attained through the processes of evolution and not by revolution. As our President has said in his recent work, "Essays on Taxation", "Mankind has yet to learn the lesson of combining in fiscal matters at least, the great principles of liberty and efficiency. It is given to but a few countries to attain the administrative efficiency which is found for instance in the Prussian Government. But that administrative efficiency is purchased at the cost of interference with individual liberty, which would in this country at least, be considered entirely intolerable. Bureaucracy is not democracy."

If we eliminate the supervising assessment officers from consideration the question of term of office becomes simplified. Minor elective officers from the very nature of things can not be invested with a long term of office. In Indiana the term is made to cover the period between the assessments of real estate which is four years. There is no inhibition against re-election and consequently a very large proportion of the township assessors are re-elected from time to time. This is especially true in the rural townships. Whether the efficiency gained by an assessor who is often re-elected to office affects the prejudices and feeling of partiality he acquires through successive campaigns depends largely upon the community he serves.

I have examined with some care the method provided in the various states for compensating assessors. There is as great variation in this as in other phases of the taxation question. For instance in Oklahoma township assessors have been abolished and an elective county assessor does the assessing. His pay is based upon the value of property returned. Upon the first $2,000,000 he receives five cents on the hundred dollars, on the next $3,000,000 two and a half cents, on the next $30,000,000 one and one half cents, and on all in excess of $35,000,000 three-fourths of one cent on the hundred dollars. From this he must pay whatever deputies he appoints. I am not informed as to whether this system works satisfactorily or not, but it seems to me there are two ob-
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jections to it. First, it is not an equitable method of compensation as between assessors. Poor and sparsely settled districts are more difficult and more expensive to assess than congested and opulent communities like cities, and the grading of the compensation does not entirely remove the inequality. Second, the compensation is a sort of surtax on property and must arouse in the payer a feeling that there is too much personal interest entering into the size of the assessment. While there is no exact way in which the pay of assessors may be equalized throughout a state with the varying conditions which assessors must contend with, it seems that the per diem method used in Indiana for township assessors with a graded added compensation for townships of over a certain population might reasonably be expected to meet the varying conditions due to the congestion or diffusion of wealth. The minimum compensation, however, is too low and should be increased in the same ratio that wages in general have increased in recent years. The County Assessor’s salary should also be based on population. We find in our state no objection to the present plan of grading salaries, except, that while the cost of living, wages, and assessed valuation have steadily increased, assessors’ salaries have remained the same.

From these observations I would draw the following conclusions:

First. That the very nature of the general property tax requires a highly centralized administrative system; that this principle is generally recognized and is being gradually worked out by the creation of state tax boards with extensive powers and wide jurisdiction as original boards of assessment.

Second. That the present system of electing local and primary assessing officers is too closely interwoven with the general scheme of local self-government to admit of a radical change at the present time, and that the abolition of the same must come through a process of evolution.

Third. That the purpose of the office of county assessor cannot be fully realized so long as the county assessor remains an elective officer; that the nature of his duties natur-
ally classifies him as an executive officer and representative of the state tax board.

Fourth. That the assessment of property in cities of large population constitutes a problem which requires different treatment than the assessment of property in less congested communities; that in such cities the township assessor should be replaced by a permanent bureau of assessments with an executive head appointed by the Mayor with the approval of the Common Council, Board of Aldermen, or whatever the local legislative body may be called.
FREQUENCY OF ASSESSMENT

CHARLES LEE RAPER

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The frequency of the assessment of taxables has hitherto received, as far as I am aware, slight consideration from students of taxation and government. Little has been written upon this topic, certainly in the United States. An investigation into the practice prevailing in the different states reveals a variety of procedure. In some states all kinds of property and taxable privilege are revalued every year. In other states certain kinds of taxables are assessed yearly; the other kinds are revalued less often, as seldom in some states as every four or five years. The reasons for this variety in the frequency of assessment seem lacking in clearness. They have, in fact, in a number of states, not been thought out to the finish. The makers of the laws providing for assessment every year, or every two or four years, have not arrived at very definite ideas, certainly not specific general rules of frequency. They have followed custom or temporary expediency. Can such rules be reasonably prescribed?

The purpose of assessment is, of course, to place the taxable values of each citizen upon the books, so that the taxes may be levied and collected. The value of each item at the time of the assessment should be as accurately ascertained or estimated by the assessor as possible. It is not necessary for me before this body of expert tax officials and students to make an argument in favor of accuracy in all assessments. Such an argument is vitally necessary before many assemblies of legislators, but not before this body. This argument has been made convincingly clear by the logic of taxation and by every practice of taxation. That accuracy of assessment is the great fundamental rule, and that inaccuracy always means a loss in revenue to the state and injustice to the
taxpayer, need here no further discussion or demonstration. But what is the relation of accuracy to frequency of assessment? What is the relation of frequency to expense of assessment? These are the questions that make frequency an important problem.

Assessment includes, of course, the process of placing the taxable items which each citizen has at the time upon the books, as well as that of making a valuation of each of them. Some items change ownership more frequently than others, and a more frequent assessment of these is, therefore, expedient. Real estate is upon the whole the one item which has the most stable ownership of all our groups of taxables; and this fact should play a part in determining the frequency of its assessment.

Should the taxable property or privilege be of such a nature, or situated in a place of such changing economic conditions, that their values have material changes as often as every year, then theory, I think, demands their revaluation annually. The only point to be considered in such a case is that of the expense of assessment. Will the extra expense of revaluation be more than offset by the larger revenue or the greater justice to be derived from yearly assessments? Many of the states have such changing conditions, particularly in their land values. Frequency of assessment is, therefore, to them a vital problem. They should have frequent revaluation, certainly of land, even though its ownership is relatively stable, unless the expense is too great.

Where taxable values change slowly and with not too much unevenness in the various parts of a territory—a municipality or a state,—an assessment less frequent than the yearly works in practice no particular loss or injustice, unless the taxables have much change of ownership. The State Tax Commissioner of Connecticut in 1910 recommended that, beginning with 1914, the revaluation of real estate should be made by the town at least every five years. The correctness of his recommendation rests upon the assumption that the values of the real estate within his state and that its ownership do not change rapidly. If such an assumption is correct, and it probably is substantially so in Connecticut, it is
the act of wisdom for his state to make, or require to be made, an assessment only occasionally. It is, I think, the opinion of the Chairman of the Kansas State Tax Commission that land and likewise buildings in that section of the country should not be revalued oftener than once in four years, but that corporation property, except real estate, and corporation franchise and personal property and incomes, should be assessed annually. The reasons for his opinion are, I imagine, substantially the same as those of the Connecticut Commissioner. In some communities the economic conditions change slowly; their general conditions of agriculture, manufacture, commerce, and transportation remain from year to year without important alteration. In such communities, and Connecticut and Kansas may at present be such communities, revaluation every four or five years is I think, frequent enough both from the point of view of revenue to the state and of justice to the taxpayer.

When reassessment is made, every reason demands that it should be done with the greatest possible accuracy; and to do this requires very considerable expense. But does the yearly revaluation of all kinds of taxables necessarily mean a large additional expense over that of a less frequent assessment, of let us say every two or four years? We must assume that each assessment, whether made yearly or less frequently, must be made with the maximum effectiveness. To do this requires, I am convinced, a permanent and more or less expensive machinery of assessment of both state-wide and local nature; without such machinery, efficient and just assessment at any time is, I think, absolutely impossible. Can this necessary machinery perform the task of yearly assessment without much extra force and expense? Can a state tax commission and a permanent local office of assessment do the work of accurate revaluation every year without important assistance? This, it seems to me, is our really vital problem. The maintenance of these permanent offices—the state tax commission and the county or municipal office of assessment—will mean a fairly large expense whether they make yearly or less frequent revaluations. Can the regular force of these offices unaided perform the task of yearly as-
essment of all the taxables? The state office, without assistance, can, I think, do this with the corporation property and franchise. The local office can do it with the personal incomes and property, as effectively as such miscellaneous values may be ascertained by any ordinary method of assessment—as effectively as they may be ascertained unless the assessor goes with a search warrant into every home, store, office, etc. Can it do it with the land and buildings?

Should it require an extra force, and consequently an extra expense, to make an accurate reassessment of the real estate—and it often does,—then the argument in favor of a less frequent assessment seems clear, unless such assessment entails an important loss in revenue to the state or a failure to bestow justice upon the taxpayer. Just how much more expensive it is to assess land and buildings than it is to assess personal property and incomes, when they are all assessed with equal accuracy, is not known, at least in most of the states. In a few localities the assessment office keeps an exact record of the expense of the accurate assessment of each group of taxables, and in these localities the problem of frequency of assessment may be solved in terms of actual facts so far as expense goes. The New York City office does the unusual thing—it knows how much it costs to assess each parcel. In 1909 the cost of assessing a million dollars worth of real estate was as an average for the City $59; in 1912 it was $68, ranging from $22 in the borough of Manhattan to $523 in Richmond. Is it not reasonable to make the inference that the cost per million dollars of assessing land in a territory as large as that of an ordinary state, where its values as an average are far less than they are in any part of New York City, would be much greater?

There can, therefore, be no inflexible rule as to the frequency of revaluation of every kind of property—no uniform rule for the state or locality to follow. It must depend upon the relative changeableness of the ownership of the different groups of taxables. It must depend upon the condition of the taxables—whether they are of such a nature and in such a situation, that important changes in their values occur yearly or less frequently. It must also depend upon whether
the machinery of assessment is effective, and upon whether more than the regular equipment of this machinery must be employed to make the assessment of all kinds of taxables accurate.

Some states require that personal property and incomes, corporate property, except real estate, and corporate privileges shall be reassessed every year, while a new valuation of real estate is made every two, four, or five years. If their practice is correct, it means that all other property changes ownership more frequently than real estate; or it means that their land and building values change less than their other values, or that to reassess real estate is, to an important degree, more expensive and difficult than to assess other taxables. Let us take an example. Is the practice in North Carolina of reassessing personal property and incomes annually, and of reassessing real estate quadrennially, correct? An investigation clearly shows that, within recent years at least, the values of land in this state have changed more frequently—for the most part increasing—than the values of any other taxables as a class. Why, then, has North Carolina continued the practice of assessing more frequently the less changeable taxables and less frequently the more changeable taxables? The reason for such action lies, I think, in the facts that real estate on an average changes ownership less frequently than other property and that its assessment is relatively more expensive. North Carolina has practically a nominal state tax commission, which costs the state very little, and which, apart from assessing the taxable privileges of public service and other corporations and their stock and corporate excess, has little to do with assessment. The work of revaluation of the other taxables falls entirely upon the township assessor and list-taker. One man for each township can perform, as they have been performed, the tasks of revaluing the personal property, the incomes, and the buildings, in case of improvement or damage, while it requires the services of three men to the township to revalue, as it is now done, the land, buildings, and all other taxables.

Mr. Link of Indiana made the statement that the county assessor now assesses the property within the township. That
was true only for a period of two years, and it might be of interest to you to know the reason why it was discontinued at the last session of the legislature. For a period of two years the nominal state tax commission selected the county assessor and the county assessor had control of the township assessor, list-taker or assessor, but the state board did not actually select a single county assessor. The state board left it to the county commissioners and they selected the assessor as they long had been in the habit of selecting the list-taker; and consequently as the assessments were made it was found that the selection of the county assessors had not improved matters either in terms of revenue or of justice and consequently the last legislature abolished the county assessor for the simple reason that it might save that expense.

That it is more expensive to revalue land than most other forms of taxables, if not, indeed, all other forms, seems to be fairly clear. The value of a piece of land is more difficult to ascertain than the value of many other forms of taxables. There is no general standard of the value of land; almost every piece has its own peculiar value, while many other taxables have a general standard of quality. The Ohio State Tax Commission in its report for 1911 gave as the expense of the quadrennial assessment of the real estate for the whole state $1,777,958. Is it reasonable to draw the inference that to make an annual appraisement would cost substantially as much as the quadrennial? If the service is well done, I think it is. The present state tax commission thinks that, when the new law, which will become operative on January 1, 1914, and which provides for an annual assessment of land and buildings, is once effective, it will amount merely to an annual readjustment of the values of land and buildings only when they have changed. But will the annual readjustment not cost practically as much, if effectively done, as a complete revaluation? Will the regular, permanent force in the assessment offices,—state and local—be able unaided to make this readjustment? Or will there be need for an additional force, and consequently of an extra expense?

Should the state follow the rule of revaluing most often that kind of property which has the most frequent changes
in value, independent of the question of its expense or of the changeableness of its ownership, land would in a number of states demand the most frequent reassessment. The values of land, though its ownership has been more stable, have in many places become more changeable than the values of other taxables as a class. Speculation plays, I think, in land values a larger share than it does in any other group of taxables; and, too, the values of land are the resultants of all the forces at work in all the other groups of taxables. The values of certain items in that very miscellaneous group known in taxation as personal property may vary as much within a definite time, say one year, as those of land, but as a whole group they, I feel sure, do not. Nor do the values of personal incomes and of corporate privilege or franchise as a rule keep the pace as set by the variation of land values. If this be correct, theory demands as frequent a reassessment of land as that of the other groups of taxables, even though its ownership is more stable.

If, on the other hand, the expense of accurate assessment and the stability of ownership be made the controlling factors in determining the rule of frequency, real estate should be assessed less often than most of the other groups of taxables, if not, indeed, of all of them.

Each state should, therefore, work out its own problem of the frequency of assessment in terms of the actual conditions prevailing within its borders. The changeability in the values of its different groups of taxables, as well as their changeability of ownership, should be accurately known and considered. The expense of assessing effectively the values of each group should be ascertained and examined. And I know of no other bodies that can do these necessary things with such effectiveness as a capable and independent state tax commission and a permanent and able local office of assessment. The ordinary executive officers will not perform these vitally necessary services. The legislators could not if they would. Such services can only be rendered by special administrative officials, who possess expert knowledge and unusual courage.
Discussion—Frequency of Assessment

Mr. William H. Corbin, of Connecticut: Mr. Chairman, Professor Raper quoted or mentioned a report of the Connecticut Tax Commission. I was the author of the recommendation and I would like to say just one word in explanation. He seems to have misinterpreted the idea of the recommendation. In Connecticut we have a requirement for an annual listing of all property. All property must be valued and assessed by the board of assessors annually. In some towns there has been no revaluation by view for twenty-five or thirty years. The practice is for the assessors to meet in the town clerk's office and mentally value the properties, seeing the mental picture, I suppose, of the different parcels of land, and other properties. The result is that inequalities have been perpetuated for years. In one or two cities, notably New Haven or Bridgeport, there is an attempt at annual valuation of all property. The recommendation I made was that the law should be amended to require the valuation of all the property in the town at least once in five years. The city of New Haven, for instance, might be revalued entirely each year, while in remote towns there should be once in five years at least a definite revaluation of all the property. You understand also that the assessment each year is recorded as of a certain date in that year, so that we have in Connecticut now theoretically the annual listing and revaluation. In practice, however, the revaluation of all the property varies with every county, so that if the recommendation had been enacted into law it would have required in the rural districts at least a revaluation on the fifth year, probably, while in cities the revaluation could be made every year. Personally I am in favor, even in Connecticut, of a revaluation of all the property annually, and under that recommendation it might have been done and would have been required at least once in five years. In the town of Manchester, in which the well
known Cheney Silk Mills are located, property is valued under a local requirement once in five years, and the result works out very well indeed, although during the interval the assessors make whatever changes in the valuation may be necessary.

Mr. William A. Robinson, of Kentucky: I want to ask Professor Raper what in his judgment would be the best method for keeping up with improvements. If these assessments are made every four years on real estate, how would you keep track of the improvements on such real estate? I myself believe in the four year rule, which I understand obtains in the state of Indiana.

Mr. Raper: My thought was this: I stated that in case the values do not change, in case improvements are not made in large volume, then four years would be sufficiently frequent, but where land values do change very quickly there I think four years would probably be not often enough. So far as keeping up with improvements goes, there seems to me to be no special hardship if you really get accurate values on the books when you make the assessments. If, for instance, you make an assessment that is an accurate one, and then again four years hence place all those increments of value on the books, it does not seem a very great hardship or that a great loss in revenue would result.

Mr. Lawson Purdy: I think a little too much emphasis has been laid upon changes of ownership. Changes of value are the determining factor in assessments, both as to frequency and as to cost. It is my impression that if any state has an efficient assessment machinery it would be better a great deal to have an annual assessment of real estate. As a matter of fact, speaking of costs in the city of New York, it costs us about six times as much to get one million dollars' worth of assessment out of personal property as it does out of real estate. There are certain local reasons for that, but that is the fact. Any real estate appraiser knows that to make a good appraisal he must live with the real estate. This idea
of making an accurate appraisal once in four years I think is ridiculous because an appraiser must be with his real estate all the time to appraise it properly. If your real estate changes in value slowly one man may have a very much larger district than he could appraise if the changes of value were rapid, but in order to make a quadrennial appraisal and do it correctly he should be familiar with all that goes on in the district during the whole of the four years. Now if he appraises it annually he may change ten per cent of the parcels, but he will change each year those parcels that have advanced in value or declined in value. The notion that the appraiser of real estate should be the foreman of machinery for the particular year I think is responsible for this notion that it should be done only once in a longer period of time. If you had county assessors appointed by a state board, holding office permanently, only discharged for cause, on the job all the year round, doing nothing else, the man who had a given territory where values change but little could assess a very large territory and do it well, and he could make each year such changes as might be necessary from year to year and the cost of doing it that way would be a great deal less, like enough, than where in the state of New York we elect three assessors to every town—and if they revalue once in twenty-five years I guess we are lucky.

Mr. Dallas Boudeman, of Michigan: I may mention one point that occurs to me in this discussion of a four-year period of assessment. The theory is wrong. It may fit in those states where there is little progress made in the way of dividing up land; but in and around the city of Kalamazoo, Michigan, in which I live, I can assure you that in the last five years at least one-third of the property has been replatted, sold and become partially owned in different parcels by different individuals. I cannot see therefore how it would be possible for us to have an assessment only once in four years, because every year new plats are made.
EQUALIZATION BOARDS: METHODS AND POSSIBILITIES

J. Frank Adams
State Tax Commissioner, Denver, Colo.

Taxes are the enforced proportional contributions from persons and property, levied by the state by virtue of its sovereignty for the support of government and for all public needs.

The state demands them from the subjects of taxation within its jurisdiction that it may be enabled to perform its manifold functions: the citizen pays them in order that he may be secured in the enjoyment of the benefits of organized society. The justification of the demand is found in the reciprocal duties of protection and support between the state and those subject to its authority, and the exclusive sovereignty and jurisdiction of the state over all persons and property within its limits for governmental purposes.

The person taxed owes to the state a duty to do his just proportion towards the support of the government; the state is supposed to make adequate and full compensation in the protection it gives to his life, liberty, and property, and in the increase to the value of his possessions, by the use made of the taxes.

Taxes are supposed to be regular, orderly, paid at regular periods; levied by authority of law, and by some rule of proportion which is intended to insure uniformity of contribution and a just apportionment of the burdens of government. The purpose always is that a common burden shall be sustained by common contributions, regulated by some fixed general rule, and apportioned by the law according to some uniform ratio of equality. The taxing power, resting upon fixed principles of justice, is to have effect through established rules operating impartially. The apparent equity of any particular
exaction cannot justify it as a tax unless it is made in accordance with law; nor can the seeming injustice of a levy actually authorized by law defeat it, if made under such general rules as the wisdom of the legislature has determined are needful and proper for the general good. The impossibility that government should be administered even by the most conscientious rulers without unjust consequences in particular cases is universally recognized; and the state is therefore considered to have performed its full duty when it has devised and established such general rules and regulations as seem calculated to reduce such consequences to a minimum.

But in all just governments it should be a cardinal principle that such imposition should be equal, and that all the property within the state should contribute its equal share of the burden imposed. This is on the principle that, as all the property within the state is equally protected by its laws and institutions, so all property within its boundaries should alike equally contribute to their maintenance and enforcement. And this principle is uniformly upheld by all the decisions of the courts.

Mr. Justice Field, in the California Railroad Case, wherein was first announced the application of the Fourteenth Amendment of the Constitution of the United States to discriminating taxation, said:

"The basis of all ad valorem taxation is necessarily the assessment of the property; that is, the estimate of its value. Whatever affects the value necessarily increases or diminishes the tax proportionately. If, therefore, any element which is taken into consideration in the valuation of property of one party be omitted in the valuation of the property of another, a discrimination is made against the one and in favor of the other, which destroys the uniformity so essential to all just and equal taxation."

The Fourteenth Amendment creates no rights; it only extends the guaranty of federal protection to the rights already existing, whatever their origin, whether created by the state or not. All property rights whatsoever are protected by the guaranty of due process of law and the equal protection of the laws.
It would, indeed, as counsel in the San Mateo case ironically observed, be a charming spectacle to present to the civilized world, if the amendment were to read, as contended it does in law: "nor shall any state deprive any person of his property without due process of law, except it be in the form of taxation; nor deny to any person within its jurisdiction the equal protection of the laws, except it be by taxation."

The guarantee of the equal protection of the laws therefore is directed against arbitrary discrimination in taxation, and in this sense secures equality in taxation.

Unequal taxation, so far as it can be prevented, is therefore with other unequal burdens, prohibited by the amendment. There undoubtedly are, and always will be, more or less inequalities in the operation of all general legislation arising from different conditions of persons from their means, business or occupation in life, against which no foresight can guard. But this is a very different thing, both in purpose and effect, from a carefully devised scheme to produce such inequality; or a scheme if not so devised, necessarily producing that result. Absolute equality may not be attainable, but gross and designed departure from it will necessarily bring the legislation authorizing it within this provision.

The Supreme Court has uniformly observed the distinction between the equality in taxation, which is inherent in the conception of a tax, and that which is enforced by the requirement that everything shall be taxed in the same manner, and has in a number of cases affirmed the power of the state to make reasonable classifications in the adjustments of its system of taxation according to its own judgment of the public needs.

Equity will not relieve against an assessment merely because it happens to be at a higher rate than that of other property; that such inequalities, due to mistakes, to the fallibility of human judgment, or other accidental causes, must be borne, for the reason that absolute uniformity cannot be obtained. Interference can only be had when there is, in respect to certain species of property, systematic, inten-
tional and unlawful undervaluations for taxation by the tax-
ing officers, which necessarily effect an unjust discrimination
against the species of property of which the complainant is
owner.

This inequality of valuation may exist when the design on
the part of the assessors is honest, and there is no intentional
discrimination. There are inevitable inequalities in valua-
tion growing out of the errors and infirmities of human judg-
ment. The Supreme Court has said that: "Perfect uni-
formity and perfect equality of taxation, in all the aspects
in which the human mind can view it, is a baseless dream.'

The influences which affect the salable values of property
are variable and often complicated. Thus it has been said
that the difference between assessors on questions of valu-
tion on the same class of property are no greater than fre-
quently arise between witnesses in a trial on questions of
value. There is no certain, definite standard of values, ex-
cepting of money and standard marketable articles. Many
influences, tangible and intangible, affect the salable value
of property, real and personal, both in city and county, so
as to make its real valuation a work of great difficulty and
resulting in inevitable inequalities. It is for the purpose
therefore of remedying as far as practicable these inevitable
inequalities growing out of the honest but mistaken judg-
ment of assessors, that special tribunals are provided for the
equalization of values, and as a rule inequalities not involv-
ing intentional discrimination can only be remedied in such
tribunals.

These inevitable, and as a rule, irremediable inequalities
in taxation are in many cases grossly aggravated by inten-
tional lowering or raising of the rate of valuation by local
assessors in response to local needs or local public opinion.
In many states the maximum tax rate of municipalities or
counties is limited by the Constitution or statute, so that a
higher rate of valuation is enforced in order to raise the
revenues for municipal or local expenses, while, in counties
where there is no such need for revenue, valuations are
made at a lower rate; so that the state tax is levied upon
properties in cities at a higher rate of valuation than it is
upon other property in the state, thus making an inequality of taxation as between different parts of the same. Some of the states have attempted to remedy these admitted inequalities, growing out of the action of local assessors influenced by local considerations, through a state board of equalization, vested with power to equalize these local valuations as to the different classes of property. This method of redress, however, has proven inadequate to remedy the evil, and it is believed that the only effectual cure will be to separate the sources of municipal and state revenue. If that is effected, the inequality in valuation between the local subdivisions of the state would be immaterial, as no common tax would be levied thereon.

Counties, by this system, are relieved from the payment of a State tax, and the necessity for equalizing assessments among the counties of the state by the state board of equalization is obviated. But as this divorcing of state from the municipal revenue would require an amendment to the Constitutions of almost all the states, it does not seem probable that such a method would be practicable, for the present, at least.

If the assessing of all the property in a state was made by some centralized body, such as a tax commission, there would be practically no equalization necessary, as all the property would then be assessed under the same methods, the same rules, and by the same standards of value.

Equality in taxation is accomplished when the burden of the tax falls equally and impartially upon all the persons and property subject to it, so that no higher rate or greater levy in proportion to value is imposed upon one person or species of property than upon others similarly situated or of like character. Uniformity requires that all taxable property shall be alike subjected to the tax and this requirement is violated if particular kinds, species, or items of property are selected to bear the whole burden of the tax, while others which should be equally subject to it, are left untaxed. Further, it is implied that each tax shall be uniform throughout the taxing district involved. A state tax must be appor-
tioned uniformly throughout the state, a county tax throughout the county, and a city tax throughout the city.

It is obviously immaterial what the basis of valuation is, if it is uniform as to all property within the territory or as to the class of subjects upon which it is laid. This is recognized in the requirement of State Constitutions, that taxation shall be uniform upon the same class of subjects within the territorial limits of the authority imposing it. Thus if all property in the state were valued on the same basis, it would be immaterial to the individual taxpayer whether he paid one per cent. on a valuation of one hundred cents, or two per cent. on a valuation of fifty cents, or four per cent. on a valuation of twenty-five cents. If there were no general property tax levied by the state, based upon valuation, it would make no difference whether property in one town was valued on a higher basis than property in another. But within the territory wherein the tax is levied, as in the state at large wherein the state tax upon property is levied throughout its jurisdiction, inequality of taxation results as certainly from inequality of valuation as from inequality in the tax rate.

The amount of taxes collected does not depend upon the amount of the assessment of property, nor upon the rate of taxation. Taxes are higher when and where the expenditure for public purposes is large; they are low when such expenditure is small. Assessment and rate are merely the means of raising the money to be expended and of determining how much each individual shall contribute for that purpose. But an equality of taxation as between the individual tax-payers depends entirely upon the fairness of the assessment. The only remedy for high taxation is a reduction in public expenditures; the remedy for unfair taxation is a fair and equitable assessment.

Perfect equality in assessment is perhaps impossible, made so by the failure of property owners to disclose all their taxable property to the assessor, and the inability of the latter to discover it when not voluntarily listed; in consequence of which, taxes are not borne in proportion to the amount of property owned by each taxpayer.
Thus the first step in securing a fair and equitable assessment, is, that each and every individual should have all his property valued upon a fair and equitable basis. If this is not done there can be no just equalization.

The theory of equalization of assessments is that the local assessment is equalized by the local board, the county by the county board, and between the several counties of the state by a state board.

But from the experience of most of the states, there is no practical equalization made by the local or county boards, and if any equalization is to be obtained, that duty falls upon the state board.

If the state board has supervisory control over the local assessors and can issue instructions and give suggestions as to the manner and method of making the original assessment and can order or make a reappraisal in any local subdivision of the state, much is accomplished in the way of equalization.

A law requiring county assessors to consult with and to compare valuations with the assessor or assessors of the adjoining counties to the south and east before making final assessments first publishing a notice of the time and place of such meeting, would also, in turn, do much toward an equalization.

In states where equalization is provided through a board composed of elected officials who perform such duties as incidental to other duties, experience has shown that no equalization is ever or can be made. This can be somewhat obviated by having a tax commission determine whether the real and personal property of the several counties in the state have been properly assessed, and if not, the commission shall determine the increase or decrease in the valuation in each county by such rate per cent. or such amount as will place said property on the assessment roll at its proper value, and submit such determination to the state board of equalization for its consideration. This system is now being tried in Colorado.

Upon whatever board or commission falls the duty of making an equalization, it is necessary that there should be rules
or methods for valuation. As was most aptly said by Mr. Mitchell in his address at the annual meeting of the California assessors: "Some of these are doubtless better than others, and it may be that the best one has not been devised. But it would appear that almost any one of them is better than no system or guess-work. If you have a rule you can make exceptions to it. If you have no rule, all cases are exceptions. Even a poor rule gives some uniformity, while a mass of individual guesses will not, save by a lucky chance, result in any uniformity. The absence of a rule leads to confusion and uncertainty in the office work to the utter bewilderment of the taxpayer, and opens the door to easy accusation against the assessor and to distrust and irritations in the public mind, while a rule rigidly followed gives a ready answer to criticism."

The best system for the equalization of assessments is probably that set forth in the Report of the Tax Commission of the State of Minnesota for the year 1912, in which they say:

"At the outset of its work as a state board of equalization the tax commission decided to get away as far as possible from the arbitrary method of determining values that had heretofore been followed, especially in relation to real estate and to substitute some method that would afford a uniform measure of value for all the counties of the state.

"After a careful study of all known methods it was concluded that, all things considered, the so-called 'sales method' afforded the most reliable measure of true values that could be devised. This plan commended itself to the commission not only because of its apparent intrinsic value, but more especially because it was not an untried experiment. It had been used in Wisconsin and in some taxing districts of other states with very satisfactory results."

Briefly stated, the "sales method" consists in obtaining from each county of the state data showing all bona fide sales of real estate during a given period with the true consideration paid for each tract or lot transferred and the assessed value of the same as shown by the real estate assessment. With this information it is a simple matter to determine the percentage of assessed to true value.
The method is based upon the proposition that nothing else so thoroughly measures the true value of real estate as the price actually paid for it in a normal transaction, and by a normal transaction is meant, an owner willing but not obliged to sell, and a purchaser willing, but not obliged to buy. It is the best measure of value that the commission has been able to find, because each sale made under such conditions represents the judgment of at least two minds—the seller and the buyer, as to the true value of a given piece of property. It is universally recognized by the courts as the best evidence of value, and in the final analysis is the basis of nearly all expert opinions in such matters.

Having ascertained the actual consideration in all bona fide sales of property in each town, village and city of a county during a given period, together with the assessed value of the same, it is a simple mathematical calculation to find the average ratio or percent of assessed to true value. The formula may be stated as follows: "As the assessed value of the land sold is to the consideration paid for it, so is the assessed valuation of the real estate of the entire county to the full and true value thereof."

The necessary data of information for the tabulation of real estate sales are gathered and verified by representatives of the tax commission. These representatives visit each county in the state and make a list of all transfers of real estate made by warranty deed during a given period, usually for two years. Care is taken to include only such transfers as represent bona fide sales, and in which the consideration stated in the deed is the actual amount for which the property was sold. Transfers that give only a nominal consideration, or that include the exchange of one piece of property for another, or transfers between near relatives, such as father to son, are not included in the tabulation.

Each transfer listed shows the name of the grantor and grantee, the date of the conveyance, the consideration, the book and page of record, a brief description of the property, and the assessed value of each description as shown by the last preceding assessment roll.

The sales are compiled and tabulated by assessment dis-
tracts and by counties. Separate tabulations are made for city and village property and for farm property, showing in each case the total number of sales, the aggregate amount for which the property was sold, the total assessed value of the same and the percentage of assessed to sales value. This percentage is then applied to all real estate in the district or county and becomes a factor by which its true value is determined.

The ratio of assessed to sales value is similarly ascertained in other counties, and is used as the factor for determining the true value of real property in each county of the state. These ratios are applied to the assessment as equalized by the county boards of equalization and will in a large measure determine what changes are necessary to fairly equalize the assessments as between the different counties of the state.

It is the policy of the tax commission to notify the county auditor of any contemplated changes in his county, with a request that he give the same due publicity. Ample time should be given any interested person to file objections, either personally or in writing to the proposed changes. Such objections are fairly and impartially considered before final action is taken.

While the sales method of determining true value may not be absolutely accurate in every instance, it is, as already stated, the best measure of value that the commission has been able to find. About 250,000 sales have been listed, and as each transfer represents the judgment of two people—the seller and the buyer—as to the value of a given piece of property, the total sales included in the tabulation represented the combined judgment of 500,000 people. While the price paid may in some instances have been more than the true value of the property, it is not unreasonable to assume that there are just as many instances in which the sales price was less than true value, thus one offsetting the other.

One of the strong points in the system is that it applies the same measure of value—the same yardstick—to each district and each county in the state. Whether the values determined by the sales method be high or low, the system affords a uniform measure of value for the entire state, and when
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intelligently applied, should result in as equitable assessment as human judgment can produce.

In addition to the data always available for equalizing personal property assessments, the commission had in 1912, the census figures for 1910 so far as the same were tabulated and in shape for use.

Still equalization of personal property is much more complex than that of real estate. The sales method affords a reasonably accurate measure of reality values, but the valuation of personal property is largely a matter of good judgment, and an intelligent discrimination of changing business conditions, supplemented by the use of comparative tables, the grouping of districts of the same general character and wealth, and the use of the data furnished from time to time by the census department of the Bureau of Commerce and Labor.

Industrial and commercial statistics are also compiled from government reports and are compared with assessor's returns for these classes of property. Financial reports and insurance carried are also factors in equalization. The valuations fixed by the census department are not accepted by the tax commission as absolutely reliable, but are used in conjunction with other data to determine approximate values in different counties.

In equalizing personal property assessments, comparative tables are prepared showing the assessed values of classes of personal property in each county for a period of years and the per cent. of increase or decrease for the current year. Counties and districts of the same general character and wealth are grouped and compared by classes and totals.

When a county shows any considerable decrease in the assessed value of personal property compared with the preceding assessment or for a period of years, a special investigation is undertaken to determine the cause of the decrease. If no cause can be discovered, increases are made in order to restore the assessment to its proper place and to equalize it with the assessment of other counties of like character.

The assessment of bank stock is perhaps the most uniform of any class of personal property. State and national banks
are equalized on a uniform percentage of the aggregate of their capital, surplus and undivided profits, less real estate owned by the bank.

The above is a general outline of the methods followed by the Minnesota Tax Commission in equalizing personal property assessments. The commission is conscious of the fact, however, that unless the initial assessment is a good one, unless all property is fully listed and equitably valued in each assessment district, it is difficult to overcome its defects by percentage increases or decreases.

In addition to the above methods, much information may be gained by compiling lists of the mortgages filed of record in the various counties, as such mortgages are made generally upon forty to sixty per cent. of the actual value of the property, and while it found that some mortgages are made at a higher percentage of value than others, still the general run of mortgages are made at a low percentage of value.

In addition to the mortgages, there will be found, especially in the larger communities, receipts and options filed of record which are considered good estimates of the value of property.

The compilation of statistics found in the chattel mortgage records is also of value. It is found by comparing chattel mortgages given near the assessment date, an estimate of value may be found, and also that many items are discovered that have theretofore escaped taxation entirely. This is especially true as to live stock, household goods and musical instruments.

In counties where much of the values come from one certain industry, such as metaliferous mining, assessed under special provisions of the law, consideration should be made thereof.

It is indeed obvious that a much more reliable equalization of real-estate assessments could be made, and much expense saved in the compilation of statistics, if the legislatures of the several states where bills have been introduced requiring the true consideration to be placed in deeds and conveyances of property, should have seen fit to have enacted such bills into laws.

As real estate comprises approximately eighty per cent. of the value of a county, and all personal property only twenty per cent. of such value, in summing up the value of a county
on the percentage basis, the weight of eight should be given to the real-estate percentages, and the weight of two upon all the personal property percentages. This would give the total relative percentage value of the entire county.

The work of assessing and supervising the assessment of property for taxation is an administrative function, calling for expert, technical skill, and requires in its line the same degree of training as is required for judges, district, county and city attorneys, civil engineers, or any public officer that can be named; it is not in any sense a political function, where the results should in any degree be affected by political views.

Let us hope that the time will soon come when we will have professional assessors; when young men will feel warranted in preparing themselves for the work of an assessor as a life career; when the tenure of office shall be dependent upon efficient work; when the compensation shall be commensurate with the duties and responsibilities of the office; and then we will have little need for equalization boards.
THE ASSESSMENT OF INTANGIBLE PROPERTY IN OHIO UNDER THE UNIFORM RULE

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The system of taxation known as the general property tax has been in use in Ohio since 1825, and attained substantially its present form in 1846. It was embodied in the constitution in 1851, and is there to-day in the requirement that

"Laws shall be passed, taxing by a uniform rule,—all real and personal property, according to its true value in money." (Article XII, Section 2.)

The tax is just what its name implies—a tax upon property in the legal sense, upon everything which is the subject of ownership, of purchase and sale, whether it consists of useful things or wealth properly so called, or of mere claims to wealth. The tax commission has recently recommended the following definition of the term property:

"every thing, interest, right or privilege, all and singular, of whatsoever kind, name, nature or description, being the subject of ownership, which the law may define or the courts interpret, declare or hold to be property, whether animate or inanimate, tangible or intangible, corporeal or incorporeal—."

The methods of assessment which have hitherto obtained are quite similar to those found in most other states which use the general property tax. Individual taxpayers are required to furnish a list of all their possessions, verified by oath, to the assessor, who is a locally elected official having small pay, a short term and a shorter period of actual service. Corporations other than public utilities report to the
county auditor. Both individual and corporation returns are subject to extensive review by county or city boards.

In this paper I use the term "intangible property" to signify primarily those forms of property which are mere certificates of ownership or of indebtedness—claims to wealth as distinguished from wealth itself. The term does not include the so-called "corporate excess" or intangible value of business organized in the corporate form.

The effect of such a method of administration as has been outlined upon the return of intangible property can readily be foreseen. In harmony with the experience of other states, the ratio of intangible to total property on the grand duplicate of Ohio has steadily decreased. In 1870 it was 11.67%; in 1900 it was 7.85%; in 1910, 5.65%.

In spite of this showing of progressive failure to reach intangible property, the people of Ohio have been unwilling to abolish the general property tax. While states of similar or even inferior industrial development have been gradually giving up this outgrown system of taxation, Ohio has "stood pat." To be sure, the votes of apparent approval of the uniform rule of taxation have not been very convincing to the friends of reform; for in 1908 those who voted on the amendment proposing a classified property tax, stood nearly four to one against the uniform rule, though the amendment failed to carry because it did not receive a majority of all votes cast at that election; and in 1912 the question before the people was not the uniform rule itself, but rather the question of income, inheritance and excise taxes, and the taxation of municipal bonds.

After the classification proposal of 1908 was lost, attention was turned to the problem of increasing the amount of intangible property on the tax duplicate. This was not alone a question of inducing taxpayers voluntarily to return their property for taxation; it was one also of persuading assessing officials to do their sworn duty. The special commission of 1908 had put emphasis upon the low and unequal assessment of the various forms of property. The appraisal of real estate in 1910 was a propitious time to inaugurate a campaign in favor of the return of all property at its true value in
money, but it was thought to be unjust to increase assessments from an average basis of 50 or 60 per cent of value to full value, without in some manner protecting property owners from a large increase in their taxes. Limitation of tax rates seemed to be the appropriate method of protection. Its bearing on the honesty and efficiency of tax assessors is apparent from the fact that officials from Cleveland and other cities, although sworn under heavy penalties to assess all property at its true value in money, boldly declared before committees of the legislature that they would not do so unless tax rates were limited.

The leaders of this campaign for full value listing were also prominent advocates of classification, with low rates upon intangible property. The chief argument for limited rates thus easily came to be their supposed inducement to the voluntary return of intangible property. The experience of West Virginia under low tax rates was cited, and in general, the common arguments for classification were applied to tax rate limitation. The result was the act of 1910, amended in 1911 and 1913, which limits the rate of taxation to ten mills for all purposes except interest and sinking fund and levies authorized by vote of the people, and makes fifteen mills the maximum rate for all purposes. The provisions of this so-called Smith law were described in some detail before the conference last year. Our present interest in the act is only to trace its influence on the return of intangible property.

There has of late been an improvement in the return of intangible property, partly voluntary, partly due to better assessment work. There can be no doubt that the last few years have seen greater activity and efficiency on the part of city boards of review, and in a smaller degree on the part of other assessing and reviewing officials. To what extent this has been due to the very general campaign waged by the state tax commission and by numerous civic bodies, aided by the press, to secure the return of all taxable property at full value, and to what extent to a greater willingness to seek out property for taxation when the rate is limited, cannot be ascertained. Large amounts of personal property have been
added to the tax lists through the work of the boards of review, but what proportion of these amounts represents intangible property is not known.

In the second place, it is beyond question that the voluntary return of intangible property has been increased under the two-fold stimulus of limited tax rates and the above-mentioned campaign for full-value listing, which has been renewed annually. But the success of the uniform rule, whether accompanied by limited tax rates or not, obviously depends on its imposing a uniform burden upon the owners of the various classes of property. Judged by this standard, the uniform rule has signally failed in Ohio, as elsewhere.

I have already pointed out the progressive decline in the ratio of intangible to total property assessed between 1870 and 1910. Now intangible property arises principally from the growth of corporations and of credit operations generally. In no other similar period of time has this growth been so rapid as between 1870 and 1910. At the end of that period the ratio of intangible to tangible property assessed was less than half what it was in 1870. Let us next see how this ratio has been affected by the rigid limitation of rates imposed by the Smith law, coupled with better work by assessing officials than Ohio had seen for many years.

In 1910, intangible property returned by individuals constituted 6.8% of all property so returned, while in 1912 it constituted but 4.70%. A more complete demonstration of the utter failure of the uniform rule can scarcely be conceived. It is indeed true that in two years the absolute amount of intangible property returned by individuals has increased from $140,000,000 to $232,000,000, or 66%. It would be strange indeed if the agitation, legislation and improved administration touching property taxation in Ohio in this period had not materially increased that amount.

1 The amount of intangible property returned by corporations in 1910 is not ascertainable, and comparison is therefore made of individual returns only; but the aggregate valuation of intangible property in 1912 was but 4.73% of the amount of the grand duplicate in that year, while intangible property returned by individuals alone in 1910 represented 5.65% of the grand duplicate.
The really significant fact, however, is that in the same period the amount of other property listed increased 163%, so that the owners of tangible property are now bearing a larger share of the property tax than ever before.

Again, the entire amount of intangible property returned in 1912 by individuals and corporations was $306,756,000. How pitifully inadequate was that return is indicated by the fact that only eleven days after tax-listing day, national and state banks in Ohio, not including private banks, reported individual demand deposits aggregating $357,735,000. In other words, this one item of intangible property in fact exceeded by $50,000,000 the aggregate amount of such property returned. Now demand deposits are taxable as money, that is, without deduction for debts; yet "monies in possession or on deposit subject to order" were returned at just one-third the amount of this single item. The true value of taxable intangible property in Ohio cannot be less than $1,500,000,1 of which only twenty per cent was returned.

It is next to be observed that by reason of this incomplete return of intangible property, the uniform rule results in gross inequality between owners of different classes of property and between districts. Many classes of intangible

1 The above figure for demand deposits may be taken as fairly representative of the true amount of "monies." At the same date Ohio banks, not including private banks and building and loan associations, reported time deposits of $331,321,000. Credits not represented by bank deposits cannot be ascertained, nor can the extent to which credits are offset by debts be determined. The Census of 1910 reports mortgage indebtedness of $63,788,000 on Ohio farms "operated by owner owning entire farm." (This excludes many farm mortgages and all mortgages on city real estate.) The total indebtedness of Ohio corporations in 1912 was returned to the Commissioner of Internal Revenue at $1,287,292,000. Placing the market value of their bonds at $600,000,000, and assuming that the amount of mortgages and bonds owned by non-residents is equalled by the amount of mortgages on real estate outside of Ohio and of bonds of foreign corporations held by residents, we have as a minimum estimate of taxable intangible property in Ohio, $1,853,844,000. And this total does not include taxable stocks of foreign corporations, nor credits other than time deposits, not all of which can reasonably be supposed to have been offset by debts, nor mortgages on city real estate.
property are being assessed at approximately their true value in money. Take for illustration farm realty: the average value per acre fixed at the quadrennial appraisal of 1910-11 was $67.86, which compares with $68.62, the value found by the census in 1910.

Furthermore, the uniform rule has so worked as to accentuate inequalities between different sections of the state. It is generally conceded that intangible property tends to be concentrated in the larger cities. Yet the counties in which are situated the five largest cities of the state, and which contain 35% of the population, report but 19% of the aggregate amount of intangible property returned to assessors, while the ten smallest counties, containing 3.5% of the population, report 5% of the total amount of intangible property.

Tax limitation has thus proved utterly ineffective in Ohio as a means of securing full and just returns of all property for taxation under a uniform rule. If even approximately full returns are to be secured, one of two things must be done: (1) the functions of government must be greatly restricted in order to reduce expenditures and thus permit a much lower tax rate than now obtains, or (2) new methods of assessment must be employed and intangible property forced to contribute in proportion to its amount, regardless of well-established and oft-demonstrated economic principles of the incidence of taxation,—regardless also of justice to Ohio's industries and investors.

Obviously, neither of these suggestions is a solution of the problem. Although there is ground for thinking that some advocates of the limitation of tax rates and governmental expenditures would welcome a return to a government of fewer functions, Ohio has gone too far, the nation has gone too far, humanity itself has gone too far, ever to get back to a government which is merely a big policeman. Even if it should do so, there is no ground for thinking that the uniform rule would afford the basis for a satisfactory system of property taxation. At best, inequalities would only be mitigated through the lower rate of taxation; they would not be removed.

Until quite recently, at least, the trend in Ohio has been
toward a rigid enforcement of the uniform rule. Unfortunately, the tax commission has taken the ground that the uniform rule is the only just rule of property taxation, and that it works badly only because the legislature has not provided for efficient administration. The promulgation of these views by the commission played its part in determining the action of the constitutional convention of 1912, which recommended the retention of the rule, and the restoration of municipal bonds to the list of taxable property.

Why the convention rejected the plan of a classified property tax is debated, but the best answer seems to be that classification was confused with the single tax in the minds of many delegates, owing chiefly to the fact that the single taxers in the convention favored it. The system of county representation had placed in the convention a number of rural delegates quite out of proportion to the rural population; and the single-tax idea is to the average farmer what a red flag is to a bull. There was also resentment at the long escape of intangible property, and reflection of the tax commission’s view that the tax-limit act would enable such property to be reached under the uniform rule.

The amendment proposed by the convention was adopted by a narrow majority. The total number voting for the amendment was but 26% of the number of votes cast at the regular fall elections in November, 1912. This seems a very small and uncertain voice, but it was interpreted by the tax commission as a mandate from the people to draft a bill which should not only provide the administrative machinery necessary, in the commission’s view, to the enforcement of the uniform rule, but should also so revise the definitions of taxable property and the rules of valuation as to conform to the commission’s idea of a general property tax. The most important changes in the tax system which the commission desired were five in number: (1) the taxation at full value of the shares of domestic and foreign corporations, regardless of the location and taxation of their property; (2) the limitation of the privilege of offsetting debts against credits; (3) the taxation of real-estate mortgages and corporation bonds at the source; (4) the valuation of all businesses by the so-called "unit rule"
or on the basis of income and sale, as public utilities are now valued; and (5) the centralization of the work of assessment under the tax commission. It will be of interest to consider these proposed changes in order.

The commission's first desire ran counter to the policy which the state had long followed, of exempting in the hands of their holders the shares of domestic corporations and of foreign corporations, at least two-thirds of whose property was taxed in the state and the remainder elsewhere. The commission's proposal to tax the shares of all corporations at full value unless their entire property were taxed in Ohio elicited such a storm of protest that the commission receded from its position before the bill was actually introduced, and proposed to tax the shares of all corporations in that proportion of their value which the value of the property not taxed in Ohio bears to the value of the total corporate property. Judged by general property tax standards, this was a perfectly reasonable proposition.

In the second place, the commission desired to restrict the offsetting of debts against credits by withdrawing the privilege of deducting debts from mortgages owned, and by limiting deduction to such debts as were owing to residents or to concerns doing business in the state, unless the debt were secured by lien on real estate situated in Ohio. The object here was to permit the deduction of such debts only as could be reached for taxation. In pursuance of this object, the bill proposed to require a detailed list of all debts deducted from credits, with names and residences of creditors.

Thirdly, the commission desired to tax real-estate mortgages and corporation bonds at the source, wherever possible. Mortgages were accordingly defined in the bill as (1) money loaned by residents, secured by lien on real property without the state; (2) money loaned by residents or non-residents and secured by lien upon real property within the state, and (3) all sums owing to residents or non-residents, secured by lien on any real or personal property within the state and belonging to any corporation or public utility. Mortgages and bonds secured by lien on property within the state could thus be inevitably taxed wherever owned by making the tax a lien
on the mortgaged property; but no deduction from the valuation of the mortgaged property was contemplated. While I should welcome any proposal to utilize "taxation at the source" rather than self-assessment in the administration of the property tax, I venture to doubt the constitutionality of such a proposal for the taxation of mortgages and corporation bonds. If I read the decisions rightly, the supreme court of the United States might be expected to hold that mortgages and mortgage bonds held by non-residents "are property beyond the taxing power of the state,—where under state laws a mortgage, though in form a conveyance, is a mere security for the debt and transfers no estate in the mortgaged premises." 1 The tax commission did not propose to tax mortgages as an interest in real estate, but as personal property. It would seem clear, therefore, that the court could not consistently approve the proposal to tax the non-resident mortgagee or bond-holder without granting the debtor the right of deduction.

In the fourth place, it was proposed to tax all businesses as "going concerns," or on their value for purposes of income and sale. This was an attempt to tax intangible good will and franchise values as property, although general corporations are already subject to a franchise tax on their capital stock.

Those provisions of the bill which have now been sketched did not find favor with the administration and legislature. The fifth general purpose of the commission's bill was, however, enacted into law last May in the so-called Warnes act, which centralizes the assessment machinery of the state under the effective supervision of the tax commission, and substitutes for elective assessors one or two officials in each county appointed by the governor for an indefinite period, and subject to removal by the commission. Boards of complaints appointed by the commission supplant the ex-officio county boards of equalization and review and the appointive city boards of review. All these officials will come within the classified civil service. It is fair to say that, in conjunction

1 State Tax on Foreign Held Bonds. 15 Wallace, 300. Italics mine.
with the tax commission act of 1910, the new law constitutes the only real advance in tax administration in Ohio in a half century, and places the state in the forefront of administrative reform.

Some improvement in the assessment of intangible property is to be expected under the new law. More efficient assessors may be had, uniform rules may be prescribed, and information may be interchanged. But it is probably too much to expect any considerable permanent improvement in this regard. More investments will be made outside the state and new modes of concealment will be developed. Permanent improvement can come only through the repeal of the uniform rule. There are now in motion forces which may bring this about in the near future. Already taxpayers have discovered that the tax on municipal bonds has increased the interest rate on public loans, and a proposal again to exempt them will be voted on this fall. This experience has probably weakened the faith of the people of Ohio in the uniform rule. Although the legislature last spring refused to submit an amendment providing for classification, it is likely that such an amendment will soon be initiated and adopted if the legislature cannot be prevailed on to propose it. The unwisdom of the recent constitutional convention in tax matters is in a measure relieved by its recommendation of a method of amendment whereby a proposal is adopted by a majority of those voting on the amendment, not as heretofore only by a majority of all those voting at the election. In this change in the method of amending the constitution lies the present hope of those interested in tax reform in Ohio.
DISCUSSION—INTANGIBLE PROPERTY IN OHIO

Professor Fred. R. Fairchild, of Connecticut: I have had no opportunity to see this paper before this afternoon. For that reason I have prepared no formal discussion.

The State of Ohio has already attained a reputation for its persistent adherence to the old-fashioned general property tax, and after its stubborn and conscientious effort to enforce the property tax and the unit rule against all kinds of property, including intangibles, it seems to me that the rest of the country should feel indebted to the state of Ohio for so conscientiously carrying out this experiment. I feel that we this afternoon are indebted to Professor Lockhart for his very able account of this history and for the conclusions which he draws. Personally I hardly see how any one can fail to agree with the conclusions expressed in the paper we have just heard.

The utter futility of the attempt to tax intangible personality by the unit rule under the general property tax it seems to me is demonstrated beyond the possibility of further question. Apparently there are three alternatives before us. We might continue the stubborn attempt to make the general property tax fit intangibles after the demonstration of its futility. Consideration of that alternative might as well cease here. It is unthinkable that we should go on producing the results of a penalty for honesty, a bonus to the dishonest, and cruel injustice to the widow and the orphan and those whose wealth is made public through the probate courts or the reports of trustees, while favoring those more fortunate who are able to conceal their wealth, with only a miserably insufficient revenue to show for it all.

As a second alternative we may possibly go to the other extreme and say, "Give up the whole attempt to tax intangibles." Possibly we will some time come to the point where that can be done. It may be that we will devise meth-
ods of reaching the income of corporation bonds at the source and other effective methods of securing the tax which should be paid by the owners of other forms of intangibles. For the present at any rate that is probably more or less in the distant future. The general property tax is with us and is to continue, and this alternative then means the entire escape of those persons whose wealth is in the form of intangibles. It means the further increase of the already heavy burden of taxation borne by the farmer and the further decrease of the already light burden of the fortunate wealthy city resident. It seems to me that alternative also is hardly to be seriously considered at the present time.

If we cannot escape at either extreme, is there possibly a middle ground? I have the feeling that a method of taxing such property which we have had in Connecticut for some time is deserving of the serious consideration of the other states.

In 1889 the State of Connecticut adopted the socalled two-mill, or to-day four-mill, tax or the socalled "chooses-in-action tax." This law, with which many of you are already familiar, provided in brief that the owner of such property-bonds and others choses-in-action—might present the document or a list and description thereof to the state treasurer, having it certified, and paying thereon a tax at the rate of two mills a year. This tax exempted the instrument from further taxation under the general property tax. The rate was raised in 1897 to four mills and has remained at that rate to the present date. Prior to the enactment of this law the official returns showed something like three millions of dollars of this class of property listed for taxation. Following the enactment of the law, the amount taxed rose to twenty-five millions of dollars. Since then there has been a gradual and steady development until to-day the amount of intangibles thus reported and taxed is in the neighborhood of forty-five millions of dollars, producing a revenue of something like $160,000. It is doubtful whether the increase of the rate from two to four mills was well considered; certainly there came no such increase in the revenue as should have followed a doubling of the rate, showing apparently that there are many con-
sciences in the state which are proof against a two-mill tax which have to give in when confronted with the double rate.

It is perhaps of interest to note that one of the motives for the introduction of this tax was the desire on the part of bond dealers to improve the market for bonds. In fact, I am informed that the principal motive in favor of this amendment of the tax law came from those interested in the sale of bonds; and certainly the result was to improve the market for bonds and similar choses-in-action.

Another interesting corollary was the effect of this law in checking the sale of more or less worthless bonds and other securities. So long as the investor had to keep his possession of bonds a secret or take the penalty of paying a tax amounting to perhaps one-quarter or one-third of his income if he declared them, it was an easy matter to sell bonds by a secret method, and when secrecy is maintained by both the seller and buyer it is obvious that the business of getting off worthless bonds on unsophisticated investors was easy. Here was a second motive in favor of the enactment of the law, and the result has been that the sale of bonds, being no longer forced into secret and clandestine channels, was brought out in the open and those concerned were able to protect the unwary investor against the worthless security.

The Connecticut system is a make-shift; it is not supported by any fine theory or any logical argument. It is a compromise with the not too tender conscience. Yet as a practical expedient, as a half way ground between two extremes, neither one of which seems tenable, and as a producer of a reasonable amount of revenue, I believe we have in the state of Connecticut a plan that deserves the serious consideration of other states which are struggling with this problem. [Applause.]

Mr. Charles H. Shields, of Washington: I think I can perhaps throw some light upon the situation in Ohio. I believe there is no person here who has had any more experience with the taxpayer in the past three years than I. And I am going to be frank with you. One reason the people in Ohio are not willing to depart from the rule of uniformity
is because they associate with the proposal to classify property a feeling that the single tax may be "put over" upon them. In nearly every one of my discussions in the states of Washington and Oregon the opposition has referred to the action of prior conferences as being opposed to the general property tax, meaning that that opposition leads to the application of a tax upon land only. Until that fear is dispelled nothing can make the average individual understand the justice of the proposed classification of property.

Now, there is a vast difference between equality of taxation and uniformity of taxation, and whenever you can get the people to understand that you are after equality, that every individual possessed of the ability will and must contribute his share to the support of government, you will find the American people ready and willing to adopt it. As soon as you can convey that idea to them, as soon as you can offer them the assurance that the wisdom of the United States, as assembled here, stands for equality of taxation, equality of burden in the support of government—the moment you do that you have paved the way for advance in taxation.

Mr. Lawson Purdy: Mr. Chairman, I think perhaps the members of the conference might be interested in a comparison of the figures of the revenue derived from the secured debt tax in New York with the revenue derived from the four-mill tax in Connecticut. The population of Connecticut in 1910 was 1,100,000 in round figures and the population of New York was 9,113,000, or a little less than nine times as much. The revenue in Connecticut, given by the gentleman [Professor Fred R. Fairchild] who spoke, from the four-mill tax was $160,000. The revenue from the secured debt tax in New York in 1912 was $1,416,000, and for 1913 $1,167,000. It is generally thought that it could be a good deal larger if it were a little more strenuously pushed—but you will see that the relation is not far from even. The secured debt tax is only one-half of one per cent as against four mills per annum.

Mr. Allen C. Girdwood, of Maryland: When intangible
personal property was taxed at the full local rate in Baltimore, prior to the assessment of 1896, there were assessed on the books of the city of Baltimore six million dollars of intangible personal property. The legislature of 1896 made a uniform local rate on intangible personal property of thirty cents. Now, in the year 1914, the assessment of intangible personal property is one hundred and ninety million dollars. We have increased our tax on a low rate from twelve thousand dollars to five hundred and thirty-seven thousand dollars. That is due, I believe, to the fact—Judge Leser at any rate read a paper before this conference in which he took that view—that a low rate will produce a greater revenue than a high rate. From six million dollars in fifteen years we have increased the assessment to one hundred and ninety-one million dollars. That is what a low rate will do, so we think.

Mr. Charles M. Luthie, of Ohio, Mr. Chairman and Gentlemen: I have followed the discussions of these conferences for a number of years with a great deal of interest. I had been impressed that it has been the opinion of some of the distinguished members of your association that the great state of Ohio needed tax reform about as much as any state here represented. There can be no argument as to the correctness of that opinion because we admit it. I will confess further that it is a remarkable thing to me that the people of Ohio with their high standard of intelligence should have permitted their taxation system to become so antiquated that it has been held up to you as a "horrible" example for so many years.

I want it understood in the beginning, gentlemen, that I am not advocating the uniform rule of taxation in Ohio. [Applause.] That system is indefensible, although the people of my state appear to be wedded to that idea. And until we can convince them that their constitution should be amended we are helpless. But I am glad to report to this conference that the sentiment against the uniform rule in Ohio is increasing and at no distant date we will be enabled to secure some modification of it. Since your last deliberations a new era has dawned in our great and prosperous
DISCUSSION ON INTANGIBLE PROPERTY

commonwealth. The legislature of 1913 made the unprecedented record of enacting fifty-six measures that the people wanted in twelve working weeks. [Laughter.] The motive power behind these new enactments was our splendid governor. These new enactments were formulated under his direction, built on humanitarian principles and constructed along the lines of the best economic thought of to-day.

As I follow your proceedings from year to year I find that the consensus of opinion of the best authorities in taxation—and they are members of your honorable association—has been that to any assessment system there should be applied the element of individual responsibility; that this system should be put upon a business basis from top to bottom; that the tax commission in whatever state it might be should have general supervision over the assessment and should be held responsible for uniformity and equalization throughout the state. [Applause.] Now, gentlemen, we have endeavored to follow your recommendations and to frame our new statutes in accordance with your requirements. In my opinion the law we have framed in the state of Ohio is the best administrative measure of which I have any knowledge.

But, good as this law has been, as necessary as has been this reform, we have not made it into law without considerable trouble. The constitutional convention of 1912 in the state of Ohio gave us the initiative and referendum. A coterie of millionaires in the city of Cleveland attempted to invoke the referendum on this law. It was found to be a colossal conspiracy; one of the greatest ever exposed in our great state of Ohio. The petitions they filed for referendum were reeking with fraud and perjury. Names were fraudulently signed to these petitions—copied from city directories, telephone books and even tomb-stones. The secretary of state as the chief election officer refused to permit this bill to go on the ballot and in this action was sustained only last week by the highest tribunal in the state—the supreme court of Ohio. Now this law will soon be effective and we are prepared to organize the different districts so as to be in readiness for the next assessment. The Warnes Bill as it is called is a purely administrative measure. Under it the district
assessors are appointed by the governor. This appointive power is lodged in the state authority rather than in the local, for the obvious reasons that these officials can then discharge their duties conscientiously and without opposition from local authority. The tenure of office is indeterminate. In addition to these district assessors who are appointed by the governor there is created a board of complaints, appointed by the tax commission of Ohio. This board will have supervision of local assessments and their supervision will be from higher authority. Therefore the local board of complaints that we have devised in this system will give to the taxpayer recourse in over-valuation first by complaint to the local authority, second by appeal to the tax commission and finally, as at present, to the courts. A certain applicant for the position of district assessor in our state remarked to me recently that this would be a very hazardous position because the term of office was not specified in the law. The extra-hazardous nature of these positions was an added argument in favor of their creation. Under this arrangement no official can avoid the full responsibility of the assessment of his county or district. The rate of taxation in any community will be a fact and not a theory. The best guarantee to the district assessor for a continuance of his official term will be in his ability to make a proper assessment and do it with the least possible friction, giving to all the people an attractive rate of taxation year years after year. Both the district assessor and the board of complaints are dependent upon these results for their tenure of office. The employees naturally will be chosen with the utmost care as these results cannot be gained unless efficiency be the watch-word in every department.

Mr. William A. Robinson, of Kentucky: It may be of interest to those of our friends from states still governed by the general property tax, as is our state, to know that after much vexation and many delays we have reached a point in Kentucky when on next Tuesday we shall vote for a constitutional amendment to authorize a reasonably modern system of taxation. [Applause.]

As you all know, the state of Kentucky is largely agricul-
tural and the farmers predominate largely in our elections. I was struck by a point made by the gentlemen from the state of Washington that in the states where we have this general property tax the impression is general that when you begin to classify property, a greater burden is going to fall upon the farmer. I want to say in answer that we are indebted to our Maryland friends for the admirable work they have done in showing that classification largely increases both state and municipal revenue and by reason of that fact affords great relief to the owners of farm property and small homes. In our constitution adopted in 1891 we followed the constitution of our neighbor Ohio, adopted forty years before in 1851. We had hardly begun to be governed under that constitution when many of our best and most progressive citizens began to feel that, so far as taxation is concerned, we had taken a very unwise step and the best legal talent was at once employed to see what relief we could get by legislative action and judicial decision. After about ten years of effort we found that we had accomplished so little that we then started to secure a constitutional amendment. In 1906 we obtained the report of a state tax commission recommending the amendment. We carried it to the state senate in 1906, 1908 and 1910 but we could never get it out of the committees. In 1910 the measure was defeated in the lower house by a vote of three to one. But in 1912 it passed both houses by pretty nearly a unanimous vote, and on the fourth day of November the people vote on the amendment. That authorizes the legislature to classify property or segregate property for the raising of revenue either state or local. We feel intense anxiety about the result of the election because we cannot bring up the same subject again if it is defeated by the people. The majority of the votes cast on the amendment will decide. I want to say, sir, to the members of this tax association that I believe the change in Kentucky is largely due to the meetings of the conference when you were our guests at the city of Louisville in 1909. [Applause.] I think it is proper I should make that statement. It had a wonderful influence in Louisville and all over the whole state. I believe if we
carry that amendment on the fourth day of November it will be largely due to the influence of this association.¹

¹ The Amendment was carried by a substantial majority. The text of the amendment follows: [Ed.]

Section 1. That upon the concurrence of three-fifths of all the members elected to each house, the yeas and nays being taken thereon and entered in full in their respective journals, Section 171 of the Constitution be, and it is amended and revised so that it shall read as follows:

"The General Assembly shall provide by law an annual tax, which, with other resources, shall be sufficient to defray the estimated expenses of the Commonwealth for each fiscal year. Taxes shall be levied and collected for public purposes only and shall be uniform upon all property of the same class subject to taxation within the territorial limit of the authority levying the tax; and all taxes shall be levied and collected by general laws.

The General Assembly shall have power to divide property into classes and to determine what class or classes of property shall be subject to local taxation. Bonds of the State and of counties, municipalities, taxing and school districts shall not be subject to taxation.

Any tax law passed or enacted by the General Assembly pursuant to the provisions of or under this amendment, or amended sections of the constitution, shall be subject to the referendum power of the people, which is hereby declared to exist to apply only to this section, or amended section. The referendum may be demanded by the people against one or more items, sections, or part of any act enacted pursuant or under the power granted by this amendment, or amended section. The referendum petition shall be filed with the Secretary of State not more than four months after the final adjournment of the legislative assembly which passed the bill on which the referendum is demanded. The veto power of the Governor shall not extend to measures referred to the people under this section. All elections on measures referred to the people under this act shall be at the regular general elections, except when the legislative assembly shall order a special election. Any measure referred to the people shall take effect and become a law when it is approved by majority of the vote cast thereon, and not otherwise. The whole number of votes cast for the candidates for Governor at the regular election, last preceding the filing of any petition for the referendum shall be the basis upon which the legal voters necessary to sign such petitions, shall be counted. The power of referendum shall be ordered by the legislative assembly at the time any acts or bills are enacted, pursuant to the power granted under this section, or amended section, prior to the year of One Thousand Nine Hundred and Seventeen. After that time, the power of the referendum may be ordered either by the petition signed by five per cent of the legal voters or by the legislative assembly at the time said acts or bills
The Chairman: Those who have heard Mr. Robinson's statement relative to the effort that is being made in Kentucky to pass a constitutional amendment which will permit the change from the general property tax and those of us who have known him for the last seven years in his attendance at these conferences will be very glad indeed to hear this telegram which he has just received:

LOUISVILLE, KENTUCKY.

WILLIAM A. ROBINSON,
care National Tax Association
Buffalo, New York.

Thanks to your long and intelligent exertions, it looks like Kentucky is determined to repudiate the general property tax as the whole state seems to be favorable to the constitutional amendment to be voted on at the November election.

P. M. CLARK, Secretary.

Mr. Thomas B. Usher, of New Jersey: In New Jersey where the matter is greatly simplified by the law we do not have any personal property to assess outside of bank stock, and there is no great difficulty in getting at bank stock. All the forms of intangible property have been exempted by law during the last twenty years. But the thing that puzzles the assessors in New Jersey is this: in the assessment of intangible property—and I am speaking for the purpose of getting information in assessing intangible property such as conduits, telephone wires, water pipes and similar forms of intangible property, I would like to know whether any of the states have any table of units for the assessment of this class of property. The average assessor in New Jersey always knows how to assess a house and lot of less than ten thousand dollars; but when it comes to this class of intangible property are enacted. The General Assembly enacting the bill shall provide a way by which the act shall be submitted to the people. The filing of a referendum petition against one or more items, sections or parts of an act, shall not delay the remainder of that act from becoming operative.''

Section 2. This amendment shall be submitted to the voters of the State for their ratification or rejection at the time and in the manner provided for under section 256 of the Constitution of Kentucky, and under section 1459 of the edition of the Kentucky Statutes compiled and edited by John B. Carroll and issued in 1909.
it is assessed at varying percentages and in a large number of cases escapes taxation altogether. If any of the states have prepared a table of units for the assessment of telegraph wires and poles and 'phones, and similar property, we would like to know it.

Mr. Charles H. Shields: I want to ask a question which I raise to clarify the minds of a great many people in the west. We have been greatly disturbed in the west by the proposal to exempt all personal property—and all personal property with the western people means everything that man has created. The other kind of property is land. Now I want to ask the gentleman from New Jersey whether he proposes to exempt all forms of human energy represented in value?

Mr. Thomas B. Usher: Perhaps that is misinterpreted. I was not discussing the policy of exempting personal property. I was asking for information as to the assessment of intangible personal property such as wire. Improvements are considered real estate in New Jersey.

Mr. Charles H. Shields: Statements like that made by the gentleman from New Jersey appear in the reports of this conference, and these reports reach the great mass of people throughout the country; and when they hear him say that personal property is not taxed in New Jersey, it is taken for granted that all these other forms of wealth escape taxation. But I want it understood clearly—that they do tax improvements; that they do tax nearly everything that is called personal property, whether it be stocks of goods or something else.
THIRD SESSION

THURSDAY EVENING, OCTOBER 23, 1913

CHAIRMAN—ZENAS W. BLISS, RHODE ISLAND

Program


2. Increment Taxes and Partial Exemption of Buildings.
   Joseph French Johnson, Dean of New York University School of Commerce, Accounts and Finance.

3. Discussion—Increment Taxes.

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The important tax legislation enacted during 1913 consists chiefly in the centralization of administration in six states; the reduction, in Pennsylvania, of the rate applicable to buildings in certain cities, the adoption by Michigan of the New York "secured debts tax law"; the adoption of inheritance tax laws in two states and the revision of such laws in seventeen other states. In addition, Minnesota has divided all property subject to taxation into six classes; New Jersey and Arizona have adopted systems of tax maps; Wisconsin has accomplished a number of changes with respect to the income tax; there have been also some forest tax legislation, a variety of proposed constitutional amendments, and the appointment of at least three special tax commissions.

Centralization of administration. The tax legislation passed in Ohio during 1913 is a striking example of the continuation of the previously well-defined trend to more centralized administration of assessments. Ohio, one of the last states to abandon localized assessments, has within a period of three years attained, in theory at least, a higher degree of centralization than any other. In 1910 a state tax commission was appointed, and in 1913 its authority was extended to reach the official acts of every person charged with the duty of assessing property. This was accomplished by abolishing all elective offices relating to assessments and to reviews of assessments; by placing the assessments in each county under a deputy who is directly responsible to the state tax commission and subject on its recommendation to
removal by the governor; by granting power to the deputy to appoint his assistants, and by authorizing the state tax commission to appoint in each county a district board of complaint, thus establishing a system which completely centralizes the administration of all tax laws under the control of the state.

Other evidences of the trend to centralized administration during 1913 are found in the establishment of permanent tax commissions in Idaho, South Dakota, Montana, Florida, Georgia and Nevada; in the granting of increased powers to the state tax commissions of Colorado, Oregon, Arkansas and Arizona, and in the introduction of laws for the purpose of establishing state tax commissions, which laws, however, failed of adoption in Illinois, Iowa, Utah and Wyoming.

Reduction of tax rate on buildings and other changes in method. Probably the most striking innovation in tax legislation during the present year is found in Pennsylvania. In two cities of this state, Scranton and Pittsburgh, a system has been inaugurated whereby buildings are partially exempt from municipal taxation. The exemption progresses so that such buildings are to be taxed at nine-tenths of the full rate in 1914, and the lowest fraction will be reached in 1925, namely, five-tenths of the full rate. This system follows closely the exemption plan now in operation in Vancouver, Victoria, and some other cities of British Columbia, wherein the goal of total exemption of improvements has been reached.

Another important provision of the 1913 legislation in Pennsylvania is the tax of $2\frac{1}{2}$ per cent on the value of anthracite coal mined. It has been estimated by some that the annual revenue from this tax will approximate about $5,000,000, half of which is for state purposes and half for local purposes.

In accordance with the recommendation of the joint committee on revenue and taxation, the 1913 legislature has provided that the entire revenue from the "personal property tax" shall now be for county purposes. Formerly one-fourth of the proceeds of this tax, amounting to more than a million dollars annually, was used for state purposes.

Kansas has enacted a capital stock tax, which is levied upon
that portion of the authorized capital stock of foreign corporations represented by capital employed and business transacted within the state. This replaces the former tax which was levied upon the entire authorized capital stock of foreign corporations and which was declared unconstitutional by the United States Supreme Court in Western Union v. Kansas.

Oregon has replaced a similar tax on the entire authorized capital stock of foreign corporations by a flat tax irrespective of capital stock.

Both Vermont and Connecticut have repealed taxes based on wire mileage and instruments of transmission companies. Such companies are now taxed in Vermont on property and in Connecticut on gross receipts. Vermont has also repealed the law which gave railroads the option of paying on gross receipts, and the taxation of railroads is now confined to a property basis. Delaware has changed from a property to a gross receipts basis with respect to manufacturing companies, and Arizona has changed from a gross receipt to a property basis with respect to car companies.

"Secured debts" and "mortgage recording" taxes. During the present year Michigan has extended the method of commuting taxes on certain classes of intangible personalty through the "secured debts tax" law. In 1911 this state adopted the New York "mortgage recording tax" law, under which bonds and other obligations secured by Michigan realty mortgages on which the recording tax has been paid are exempt from all other taxation. The "secured debts tax" law, also adopted from New York, provides a tax of one-half of one per cent upon the face value of bonds, notes and other debts secured by mortgages of property in any state other than Michigan, or upon unsecured serial bonds, debentures or notes not payable within one year and not issued for an amount exceeding $1,000 each. This, like the mortgage recording tax, when paid once exempts such debts from all general taxation in Michigan.

In Minnesota, where the New York recording tax was adopted in 1907, the rates have been reduced during 1913, so that mortgages when made for terms of five years or less are taxed at a lower rate than mortgages made for longer terms.
Inheritance taxation. Inheritance taxation has been the subject of legislation in twenty states during the present year. In two of these, Indiana and Nevada, such laws have been passed for the first time, and in one, Kansas, the law taxing inheritances has been repealed.

Particularly interesting is the taxation of the right to transfer intangible personalty (principally stock, bonds and other corporate securities) belonging to estates of non-resident decedents. With respect to this phase of inheritance taxation the laws enacted during 1913 provide three distinctly different methods. By one method the right to transfer or receive such property is exempted; by a second, it is taxed on the full value of securities issued by domestic corporations, and by a third, it is taxed on a proportion of the value of stock and bonds of both foreign and domestic corporations.

The 1913 law in Indiana and the 1913 amendments to the laws of Vermont, Connecticut and Arkansas provide for the first method mentioned, which is intended to tax in only one state intangible personalty belonging to the estates of non-resident decedents.

In striking contrast with this method of avoiding double taxation is the second method, which forms the basis of the 1913 amendments to the law of West Virginia and South Dakota, and specifically provides for taxation with respect to such intangible personalty and for the enforcement of penalties in cases where stock of domestic corporations is transferred to the representative of a non-resident decedent before the tax is paid or the approval of the proper state authority is obtained.

A middle course is attempted by the 1913 amendment to the Wisconsin law, which initiates the third method. It makes no exemptions with respect to the intangibles belonging to the estates of non-resident decedents, but levies the tax on a proportional basis. For example, the right to transfer bonds and other corporate securities belonging to such estates is taxed with respect to that proportion of their value which is represented by the property of the corporation within the state. The law applies to the securities of foreign as well as of domestic corporations, and provides that the transfers of such
securities must be first approved by the proper state authority under penalties which, in extreme cases, provide for the forfeiture of domestic charters and for the revocation of licenses granted foreign corporations to transact business in the state.

The Connecticut amendment exempts moneys, deposits, shares of stock, bonds, etc., belonging to the estates of non-resident decedents and is in harmony with the law recommended by the National Tax Association. The Vermont amendment goes further, and, like the Massachusetts law of 1912, taxes such estates with respect to the real property only. Maine has adopted the "retaliatory" or "reciprocal" method, which Connecticut this year has abandoned, namely, the method which in effect places on other states the responsibility for any double taxation that might occur by taxing or exempting such property accordingly as each state taxes or exempts like property of a decedent resident of Maine. The model inheritance tax law recommended by the National Tax Association has been followed also in other respects, thus, the newly adopted laws of Indiana and Nevada provide for taxes which are graded as to relationship, progressive as to the amount of the bequest, and based on the value of each bequest instead of on the total value of the estate, and Colorado, Arkansas, South Dakota, Connecticut and North Dakota have amended their laws so as to closely conform to the model in this respect. In California the rates of the inheritance tax applicable to large amounts have been increased, so that inheritances in excess of $1,000,000 can be taxed at a rate as high as 30 per cent.

North Carolina has increased the rates applicable to inheritance by direct and near collateral heirs, and has decreased the rates applicable to inheritances by remote collateral heirs when the amount thereof is more than $25,000.

An amendment in New York provides for the exemption of state bonds, and of works of art, etc., when presented to the state or to a municipality of the state within two years after the transfer. In Ohio the exemption applicable to collateral heirs has been increased from $200 to $500. In Minnesota charitable, educational and hospital associations have been placed in a special class, and bequests to such associa-
tions are taxed at two per cent. Changes made in Massachusetts, Illinois and Nebraska relate either to minor administrative details or to distribution of proceeds of inheritance taxes.

Fractional valuation — classification. Legislation providing for the assessment of property at a fraction of its value is particularly noticeable in 1913. This method of assessing, almost universally followed in practice, was probably first legalized in Iowa during 1897. Since that date and prior to 1913 the adoption of similar statutes by other states has been slow. The District of Columbia, Illinois, Nebraska, Idaho and Alabama have taken such legislative action. In 1913, however, three states, Minnesota, Washington and New Mexico, have provided for assessment at a fraction of the full value of property, and one state, Idaho, returned to a full valuation assessment basis.

This system is carried farther in Minnesota than in any other state. The new law divides all property subject to the general property tax into four classes, and each class is assessed at a different fraction of full value. Thus iron ore, which falls within class one, is assessed at 50%; household goods, wearing apparel and items falling within class two are assessed at 25%; live stock, agricultural products and items falling within class three are assessed at 33 1/3%; and all property not included in the three preceding classes is assessed at 40% of full value.

This, in effect, is an extension of the principle, formerly adopted in Minnesota and some other states, of taxing certain intangibles at a lower rate than is applied to other property; the difference being, however, that the lower taxation of tangible property falling within the favored classes (classes 2, 3 and 4) is accomplished by reducing the assessment instead of reducing the rate.

Tax maps. A complete system of maps for taxation and assessment purposes has been provided for in New Jersey. The Board of Equalization of Taxes is given final supervision over the preparation of all maps, with authority to issue rules for the periodical revision and safe-keeping of originals. Such maps are also provided for in Arizona.
Income taxation. In Wisconsin a number of changes have been accomplished in 1913 with respect to the income tax. The most important of these are:

The class of income which, for purposes of taxation, follows the residence of the recipient, is definitely defined, and the tax commission, in apportioning income derived from property within and property without the state, is authorized to use either specific methods of allocation or a general process of apportionment provided for by the statutes.

The original income-tax law defined bonds as an interest in the property and business of the company issuing such bonds, and provided practically that the tax upon such bonded interest should be paid by the corporation itself. This provision has been repealed and a limitation upon the interest deduction has been adopted similar to that found in the Federal special excise tax. By the same paragraph depreciation is limited to depreciation "by use, wear and tear" and exhaustion or depletion allowance in case of mines is fixed upon the basis of original cost.

The rates of taxation hitherto applicable to corporations have been amended in a very important way. In the original law the rate of taxation applicable to corporations depended upon the ratio between the taxable income and the assessed value of the property from which such taxable income was derived. The method of determining the rate proved cumbersome and difficult of administration. This provision of the law has been replaced by a schedule of fixed rates which are practically double those imposed upon individuals.

The provisions which formerly allowed deductions for interest received from bonds or other securities exempt from taxation under the laws of the United States, for salaries received from the United States, and the provision which limited "profits derived from the sale of any property acquired within three previous," have been repealed.

Another provision exempts from income taxation dividends received from banks and trust companies, the income of banks and trust companies, and, per contra, provides that no tax upon bank stock shall be used as an offset to the income tax. Banks are thus placed in a group with insurance com-
panies and public utilities subject to state *ad valorem* taxation, which are exempt from the income tax, and as a consequence of this exemption, taxes levied upon bank stock can not be used as a personal tax offset.

Forest taxation. The subject of forest taxation has received attention in Pennsylvania and several other states during the present year. By a new system auxiliary forest reserves in Pennsylvania are practically exempt from general property taxation, but a tax of 10% is imposed on the value of timber about to be harvested. This tax allows the locality to share in the profits incident to the growth of timber and relieves the owner of the burden of taxation on the reserve during the time that it is unproductive of revenue. This tax is entirely for local purposes.

The Connecticut law formerly provided for the exemption of any tract of land consisting of one acre or more for a period of twenty years. Now such lands in tracts of five acres or more, not exceeding in value $25 per acre, inclusive of the timber, are subject to a maximum tax of 10 mills. The original valuation stands for fifty years, and cuttings are subject to a graded yield tax.

The Michigan Legislature has provided for the exemption, under certain conditions, of any cutover or wild lands for a period of five years.

Minnesota has authorized cities, villages and towns to levy taxes for the purpose of maintaining municipal forests.

The Wisconsin statutes subject to taxation state lands within forest reserves and provide for their assessment by the state.

Mineral rights. A law passed in Wisconsin during 1913 is designed to discourage the reservation of mineral rights by other than the fee owner; to provide specifically for the separate taxation of such mineral rights and to confine the purchase of such rights when sold for the non-payment of taxes to the owner of the fee or to the state itself.

Constitutional amendments. Amendments to state constitutions affecting taxation have been adopted in Maine and Georgia, and proposed amendments are pending in eighteen other states.
The amendment adopted in Maine permits the taxation of intangible personality without regard to the rate applied to other classes of property, and the Georgia amendment authorizes the exemption from taxation of farm products.

Amendments pending in eight states are intended to provide for the separation of sources of state and local revenue or the classification of property for taxation purposes. These states are Kentucky, Iowa, North Carolina, Kansas, Nebraska, New Mexico, North Dakota and Oregon. In Pennsylvania, where classification is permitted, a proposed amendment, if adopted, will allow the legislature to enact graduated or progressive taxes. Graded and progressive taxes on incomes in Oregon, and on income, franchises and occupations in Kansas and Nebraska, are the subjects of proposed amendments in these three states.

Municipal home rule is provided in pending amendments in Wisconsin and California. The purpose is to permit cities and towns, by referendum vote, to exempt from local taxation, certain designated classes of property. A different trend is found in Missouri. In Missouri a pending amendment follows an amendment adopted last year in Ohio which prohibits the use of the referendum for the purpose of classifying property or levying a single tax on land.

Other pending amendments are intended to provide for the construction and maintenance of public roads in Missouri and North Dakota; for irrigation or drainage projects in South Dakota; for the exemption of certain educational institutions, and for the limited exemption of vessels in California; for the exemption of public bonds in Ohio and Kentucky; for the protection of domestic animals in Wyoming; for the repeal of the poll tax in California; for increasing the equalization powers of the state equalizing board, and prohibiting it from making original assessments in Colorado; for a bounty to persons planting useful forest trees on private lands, and for special taxation of dogs in Minnesota; and for authority to increase the state tax for educational purposes in Montana.

In Pennsylvania, Kentucky and Ohio the proposed amendments will be voted upon during the present year; in the re-
main ing states, except in Iowa and Wisconsin, they will be voted upon in 1914. In Iowa and Wisconsin they were referred to the next regular session of the legislature.

Special tax commissions. During 1913 the legislatures of Massachusetts, New York and Nebraska have provided for special tax commissions.

The Massachusetts Commission is required to investigate and recommend further legislation respecting the acquisition management and taxation of wild or forest lands, the New York Commission is required to codify the laws of the state and to recommend improvements therein, and the Nebraska Commission is required to report upon the principal defects of the revenue system of Nebraska and the principal improvements suggested by experience elsewhere.
INCREMENT TAXES AND THE PARTIAL EXEMPTION OF BUILDINGS

JOSEPH FRENCH JOHNSON

Dean of New York University School of Commerce, Accounts and Finance

My subject raises this question: How can the land owner be made to contribute to the support of the government a larger proportion of his income than at the present? Caption of this paper was suggested by two circumstances:

First, The energetic campaign waged in behalf of the proposal that the rate of taxation upon real-estate improvements shall be gradually reduced until it equals only one-half the rate upon land.

Second, That recent adoption of a tax upon the unearned increment on land values in Germany and England and the recommendation of a similar tax for the city of New York by a commission on new sources of revenue, appointed by Mayor Gaynor in 1910.

In this paper I shall briefly review the arguments for and against both these innovations in our system of taxation. But first I wish to emphasize the self-evident truth that the primary purpose of taxation is public revenue, and not social reform. Nevertheless, if it can be shown that the present system of taxation is hostile to the interests of any class of citizens, bearing most heavily upon those least able to carry the burden, and so fettering certain classes in their efforts to rise from poverty into affluence, we must admit that the system should be changed. I wish also to call your attention to another fundamental and obvious fact, namely that the introduction of an ideal tax system—if all authorities should agree upon one—might cause such a violent readjustment of various business and financial interests that the damage suffered by citizens would be greater than the gain to the state.
Finally, let us not forget that taxes should be paid out of income, and not be so levied that their payment will necessarily involve a reduction of the taxpayer’s capital or wealth.

Having these elementary propositions in mind let us examine the proposal looking to the gradual reduction of the tax upon real-estate improvements. This has been known in New York as the Sullivan-Short Bill, or the Sullivan-Schapp Bill. It provides that within a five-year period at the rate of ten per cent per annum, the tax rate upon buildings shall be reduced until it is only one-half the tax rate upon land.

The most active supporters of this measure are well-known advocates of the single-tax theory of Henry George, and this fact has been the basis for the most common, if not the weightiest objection to it; its opponents stigmatizing it as the entering wedge of the single tax. This particular objection, of course, I need not discuss. Whether or not the measure savors of the single tax is of small consequence.

Many remarkable claims are made for this measure. In New York City and other large cities special emphasis is laid on the contention that it will lessen the congestion of population because of the stimulus it will give to construction, and the consequent reduction of rent. It is contended further that it will release large sums of capital for use in building and for general purposes: that it will reduce speculation in land; that it will cause vacant lots quite generally to be improved; that it will bring more and cheaper land into market for business uses, so that cities adopting it will be specially attractive to manufacturers; and finally, that the fact of its gradual introduction will give small holders time in which to make improvements and thus take advantage of the new law.

Beyond question, the reduction of the tax rate upon real estate improvements would tend towards a reduction of building rents, for the land owner would be called upon to bear a larger share of the tax burden, thus lessening the contribution which is forced from the tenants in the disguise of rent. But there is no reason believing that there would be less congestion of population in our large cities. The argument seems to lie all the other way, for a land owner
would obviously be under inducement to erect the highest possible structure in order that he might secure a return from his building sufficient to make compensation for the increased tax upon the land. Ground rents would certainly not be reduced by the change. On the contrary, there is a possibility that ground rents would be increased. And this certainly would be the case if the stimulus to building were sufficient to bring into demand much land that is now vacant. But the lessees of land, whether they pay the present or higher ground rent, will be driven by competition to exploit the land to the full limit allowed by law. It seems inevitable, therefore, that the proposed reduction in the building tax would have the effect of making our large cities more compact and condensed than at present, with the poorer classes herded more closely than now in tenement houses in no respect better than those which they at present occupy. It is true, however, that the rent per square foot of all buildings would probably be somewhat less than under the present system, and that the rich, as well as the poor, would share in the benefit.

The contention that most of the vacant lots in our cities would be improved will not bear analysis. There will, of course, be no increase in population as a result of the change, and no increase in the amount of capital available for building construction. Builders may, indeed, at first be tempted to offer higher rates of interest, and thus they may draw capital away from other industries. But this will increase their costs and so lessen their ability to attract tenants by the offer of lower rents. Many of our large cities, notably New York City, are already overbuilt. This condition is almost a chronic one, so keen and unceasing is the competition among builders and land owners.

They are always discounting the growth of a city, and are erecting buildings this year in the hope that developments will furnish them with tenants next year, or with confidence that certain little changes in style, or conveniences will attract tenants from older buildings. This is speculative building, to be sure, but it is always under way and would be neither lessened nor increased by a shifting of a portion of the tax from the building to the land.
Vacant lots in the most desirable locations, such as those nearest the residential or business centers, would doubtless be improved earlier than under the present system of taxation. But the lots less advantageously situated, especially the land on the outskirts of a city, where now houses with dooryards and gardens are possible, would be less attractive to a building company than at present, especially if it were planning homes for the poorer classes, for it would be necessary to crowd the houses and condense the dooryards and gardens, so that the homes would be less salable.

The advocates of the measure argue that the small holder of land during the five year period of the introduction of the new tax system, would have an opportunity to make improvements and at the end be in a position to reap all the advantages of a building owner. This argument, you will observe, assumes that there exists an unlimited demand for building space provided only that a certain reduction of rent can be secured. It also assumes that the small owner will be able to get the necessary capital. There is no warrant for either of these assumptions, since we know that many small owners of unimproved land are at present barely able to pay taxes and interest charges, it is morally certain that a change in the law such as is proposed, would bring foreclosure of many small mortgages, and financial distress to many comparatively poor people.

Concerning the greatest and most important effect of such a change in our tax system, and the only one of which we can be positively certain, its advocates have practically nothing to say. I refer to the fact that the increase of the tax upon land will inevitably cause a decline in the market value of all land. It will not cause a reduction of ground rents, but it will reduce the net return to the land owner, of which the market value is the capitalization.

Hence, the friends of the measure who figure the probable changes in the respective rates on land and buildings on the basis of present land values, make a serious miscalculation. If, for instance, a piece of land is now yielding a rental of $8,000, and is taxed $2,000, its market value in a 6% community is $100,000. Now let the rate be raised to 3% in the
hope that the tax yield will be $3,000. Immediately the taxable shrinks in value from $100,000 to $88,888 and the tax at the rate of 3% yields only $2,666. The land owner has lost nearly $12,000 in capital value in order that the state or city may add $666, to its revenue from taxation. If it desired to double the land owner’s tax contribution, and increase it in this case from $2,000 to $4,000, the tax rate would have to be raised to 6%, which would cause a decline in the capital value of the land to $66,666.

But no such great changes will result, I am told, for it will not be necessary to double the land owner’s contribution to the revenue in order to compensate for the loss of revenue from improvements. Let us grant that, and assume that this piece of land must be made to pay to the tax collector $3,000 instead of $2,000. In that case the market value of the land will decline from $100,000 to $83,333 and the tax rate on land would be 3.6 per cent. This on the average would be the probable effect in American cities of a reduction of the tax on buildings to one-half the rate on land.

But, I am told, this is all theoretical, and would not actually take place, since the new system would be introduced gradually, it is held that the decline of land values each year would be slight, and would, on the average, be counterbalanced by the increment of value due to the growth of population. This reply is unconvincing, for it assumes as a certainty something which at best can be only a probability, namely, that land values are to increase, whereas experience teaches us that many pieces of land in our cities decline in value while others are advancing. To such an extent is this statement true in the City of New York that an impartial student cannot escape the conviction that a change in our tax system such as is proposed, would almost immediately produce a real estate panic of mortgage foreclosures.

The notion that a heavier tax on land would lessen speculation in land, is without basis.

A speculator in land is one who buys expecting after a period to sell at a higher price. The rate of taxation is merely one of several circumstances which he takes into account. If it is low he will bid more than if it is high, and
so will all his competitors in the bidding; and if the tax rate
is high his bid, and all others, will be correspondingly lower.
The tax rate, whether high or low, does not have the slight-
est effect on speculative buying; it merely fixes the level at
which a speculative purchase shall be made; (it does not
lessen in the slightest the incentive to speculation or minimize
its reward if the speculator has made a lucky guess or shrewd
forecast as to the future demand for a piece of land).

Nor is there any reason for believing that better buildings
and tenement houses would result. Builders would be in
competition with one another just as now, and each would
be under the same pressure as now to give the tenant only
just what is necessary to secure his tenancy. Those builders
who without scruple construct a shell that looks like the real
thing, would continue the practice of their criminal art.

Let us now briefly examine the other plan for making land
bear a larger share of the tax burden namely, the tax on the
unearned increment in land values. As economically all re-
cognize, the value of land apart from its improvements is
wholly due to the social demand for its use and any increase
in its value is due to an increase in the social demand arising
from the growth of population. It is also recognized that a
tax upon land cannot be shifted, for the rent of land depends
on social demand and not on the will or desire of the land
owner.

The problem is: How can part of this rent, which is the
product of social needs, be made to contribute more gener-
ously to the support of government? We have seen that any
attempt to increase the amount which the state appropriates
from the present rent in the form of a tax, will result in
grave injustice to individuals; for it deprives them both of
property and income. The unearned increment tax is not
open to this objection, for it is aimed, not at existing values
and incomes, but at the increased values and incomes which
shall be created by social demand in the future. It is in
no sense, therefore, confiscatory.

In Europe, where this increment tax has been recently
introduced, it is levied, as a rule, only upon the death of the
owner or upon the sale of the land, and the rate of the tax
varies with the percent of increase in the values of the land and with the number of years that have elapsed since the last transfer.

In this country, since it is the American practice to assess land with an eye to its market value, rather than to its actual rental value, the levy of an increment tax can be made here in a much simpler form than in Europe. For this reason Mayor Gaynor's commission promptly dismissed the idea of copying the European method, and instead recommended a tax of 1% per annum on all future increases in land values that did not result from the efforts of the owners, the increase to be determined by comparison of assessed valuations in the future with the assessed valuations of a basic year—say 1912.

This method of levying the tax has three distinct advantages over the European method. First, the probable income each year can be more easily estimated. Second, it amounts to a perpetual surtax on all unearned increments of land values. Third, it promises an increasing revenue to the city or state, thus making possible a steady reduction of the general tax rate to the advantage of the owners of land which has depreciated or remained stationary in value. Experts employed by Mayor Gaynor's commission estimated that the revenue from this tax would increase at the rate of $1,500,000 per annum, so that in ten years it would amount to $15,000,000, and in thirty years to $45,000,000.

Real estate men have not looked with favor on this proposed tax. They express the fear that it will cause a shrinkage of land values. This fear, however, is not justified. Since the tax will not apply to property now stationary or depressed in value, it cannot adversely affect the market value of such property. On the contrary land of this character will be benefited by the reduction of the general tax rate which the revenue from the increment tax will make possible.

As to land favored by the changing conditions of city life and therefore increasing in value, this increment tax will be tantamount to a small special assessment in return for advantages flowing from improvements made either by the city or by private enterprise; and it would be much more just and searching than any system of special assessments can
be, for it would reach all pieces of property benefited and would tax them only in proportion to their benefit.

The only objection to this tax worth considering is that it will increase the problems, perplexities and temptations, of which the assessor is the victim. It must be admitted that the unearned increment tax would work injustice under a system of corrupt or unscientific assessment. But so does our present tax system. And I see no reason for objecting to a change which will make property owners more alert in the protection of their interests and more willing to co-operate with reformers in efforts to perfect our methods of assessment.
DISCUSSION—INCREMENT TAXES

Chairman Bliss: The discussion will be opened by Charles H. Shields, President of the Washington Equal Taxation League, Seattle, Washington.

Mr. Charles H. Shields, of Washington: Mr. Chairman and Gentlemen, Professor Johnson has told you that it would require three hours' time for him to discuss properly one phase of the subject of his paper. If so much time be required in a prepared paper to properly discuss a subject, you should readily appreciate my embarrassment in attempting to discuss the same subject in the short limit of five minutes, and especially when I have not had the opportunity to learn the line of discussion Professor Johnson would follow. My first knowledge of what the paper contained, other than the title, was when it was read a few moments ago.

I was much pleased with Professor Johnson's paper. He has made the best argument against the single tax that it has been my pleasure to hear, and I have heard a great deal of argument for and against the single tax in the past two years.

There is, however, involved in the paper under discussion a principle which I believe to be fundamentally wrong, and if recognized to the extent which Professor Johnson would have us do, a most serious mistake would be made,—I refer to the taxing of the so-called unearned increment in land.

Now, gentlemen, in the language of the great American lion hunter, we want a square deal. I have no objections to the taxing of the unearned increment in land, if all other unearned increment is so taxed. I think we could all agree to such a tax, as it treats all interests alike.

Is there any other form of unearned increment other than that in land? I hold that there is an unearned increment in innumerable forms, in fact, in all lines of enterprise which after paying a fair compensation for labor, risk, and interest,
there still remains a residue in value. That value is unearned, as much so as the increase of land values, which Prof. Johnson would tax to the exclusion of all other increment, which is not earned by those who are in possession of it. What we understand by unearned increment in land, is that value which is not the product of human energy. Any value in land due to labor directly or indirectly would be earned increment. When we measure the value of labor expended in and on land, we must have some standard of value for that labor, and whatever that standard of value may be, we should measure labor in other forms by the same standard. Following this rule, let us try out some of the other forms in which there is an unearned increment.

I want to ask you, gentlemen, how a man in the short time of fifty years can leave accumulated values of seventy-five millions of dollars, after receiving a bountiful pay for his labor? Mr. Busch, the St. Louis brewer, died recently, leaving from seventy to one hundred millions of dollars of property. Mr. Busch has, I am told, drawn for a number of years a very large salary, and leaves this great property value. Is there not an unearned increment in the case of Mr. Busch's accumulations? Ceretainly there is. Mr. Busch did not earn it, and if he did not earn it, it must be unearned, or if earned those who earned it did not get it, and if that be the case, it should by all means be taxed, if the unearned increment in land is to be taxed.

To get the full force of this statement, you have but to multiply the Busch illustration. The number of such cases in a greater or lesser degree, is legion. Nearly every form of human activity bears evidence of this form of unearned increment in some degree. We have but to turn to the great department stores, the Marshall Fields, the Fairs, the great manufactories; and to get quite close to home, take the case of Henry Ford, the automobile manufacturer. In less than ten years time he has amassed a fortune of many millions of dollars, after receiving a very large yearly salary. Has Henry Ford earned this vast fortune in addition to the yearly salary he has received? Are we to permit these great property values to escape an increment tax, and place such a tax
upon the increment in land? Professor Johnson may answer that the increment in land is of a different character from the other forms I have mentioned. Yes, I agree with him; there is a difference. It is this: the dollars that Henry Ford has to his credit in the various banks, his great factories, and stocks of automobiles have been earned by individuals who have not received what they have earned. While the increment in land is not the product of individual efforts, for which compensation has not been given there are greater reasons for taxing the unearned increment in industrial enterprises, than in land. I want it understood, however, that I am not advocating the taxing of unearned increment in any form, but, if we tax one kind, tax all.

Those who advocate the taxing of unearned increment in land, justify such action upon the ground that such increment is the product of society, and society should therefore be entitled to at least a portion of the values it has created. I hold that society plays a like part in all other forms of unearned increment.

I would like to discuss this phase of the subject more fully, but time will not permit as I desire to discuss the principle underlying the theory of the subject of Professor Johnson's paper.

**Discriminating against Land as Property**

Granting that there is an unearned increment in other forms than that of land, why should the increment in land be taxed, and increment in other forms escape? This is a very pertinent question at this time as it is upon this point that the discussion rests.

There can be but one ground upon which the taxing of unearned increment in land, (and not in other forms), can be justified, and that is, that land should not be treated as property, that no individual has a moral right to appropriate to himself, any part of the earth's surface to the exclusion of all others. This lands us squarely upon the single-tax principle, as advocated by Henry George, in *Progress and Poverty*, the source of the doctrine of the single tax, and from which all single-taxers draw their inspiration.
DISCUSSION INCREMENT TAXES

Henry George says, "private property in land is a bold, bare, enormous wrong like that of chattel slavery". I repeat, it is upon this principle that the taxation of the unearned increment must stand or fall.

Professor Johnson was one of the commissioners appointed by the late Mayor Gaynor, of New York City. The object of this commission was to search for, and report on new sources of revenue for the city. In an interview with a party in New York City, not long ago, Professor Johnson said concerning the commission's report, in which they recommend the taxing of the unearned increment in land, (reading): "In fairness to the commission I ought to say that we did not come immediately to the point of taxing the unearned increment of real estate. We thought of other things, but had to abandon them. We could not tax incomes because the federal government will soon do that. The state has already utilized inheritances.

"We considered the habitation tax, a tax on rents, graded according to what a man pays to his landlord for residential accommodations. But we thought it inquisitorial, un-American, and so we come perforce to the unearned increment tax. We did, to the best of our ability, under the circumstances, what the commission was asked to do."

From the quotation just read one would judge that the commissioners were strongly opposed to the increment tax, but were forced to recommend it. That was not the case however. When the questioner asked Professor Johnson, "is that another way of saying that the proposed tax measure is a sort of compromise forced upon the commission by an antiquated system of taxation?" he answered, "that is practically so."

Here is the point I want you to get! "The commission as a whole unanimously and without any reservation whatever, believe in a tax on unearned increment in land". I imagine there was not much of a struggle to keep away from the increment tax when all the commissioners were believers in it. All bodies move in the direction of least resistance.

Gentlemen, as I have said before, there is but one ground upon which these commissioners could justify their belief in the taxing of the unearned increment in land, that is, that so-
ociety should commence to take a part of that which belongs to it, this means a step in the direction of ultimately taking all the unearned increment in land, or a full application of the single tax.

Professor Johnson said to his interviewer in New York, when speaking of the protests that had been made through the press against the recommendations of the commission, "that there would not be the economic strain upon land values that is feared by the people of New York." I want to answer this, by saying, it is not the immediate results we fear, but it is the recognition of the principle involved even in so slight a degree. It amounts to a declaration to the world that the City of New York has headed straight for the single tax goal. Already the "Single Tax Review," the mouth piece of the single tax propagandists, has pointed to this report, stating that New York is paving the way for the single tax. It is this psychological condition we fear. It is perfectly natural for the people to demand the full measure of society-created values, when the principle of the single tax is recognized, as the taxing of the unearned increment in land would do. It is the first step then that we must fight, and fight it just as hard as we would the adoption of the single tax in its fullness, which means the abolition of private property in land, and the establishment of a system of tenantry, or land communism, land socialism.

It would be the beginning of our social and national decay to adopt a system of land socialism. In reviewing the progress of the world, we can be but deeply impressed with the wonderful forces in nature which are responsible for the great advancement of man, morally, socially, and in material development. We must treat with these forces intelligently, if we are to continue in the forward march. Of the forces of which I speak, compensation is greatest.

Deprive the individual of the reward of his effort and you subdue the spirit of progress, you crucify all that places man above the animal.

In connection with this thought I want to call your attention to the development of our own dear country, the United States. What magnet, other than the hope of reward
would have drawn the emigrant ship to the shores of the Atlantic, or to the desolate shores of Australia? What could have caused the men, women and children who were the early pioneers of our country, to have endured the hardships and privations incident to pioneer life? Was it not that they were to receive a reward for the risk, for the suffering, pain and mental anguish, they had to endure? What was the reward they were to receive? Just a tract of land? To hold it as a renter? No! They were to own it, and all the values that should thereafter attach to it. Under such influences we have seen this great country developed from the Atlantic to the Pacific. We have encouraged individual enterprise in every form. We have kept faith, which has inspired confidence, and let it not be forgotten that where there is no confidence there is but little progress made.

**Abolition of Property in Land**

Many of the single taxers claim that the single tax does not mean the abolition of property in land. I have in my possession a little book written by a Mr. Fillebrown of Boston, the title of which is the A. B. C. of single tax. I want to read to you what Mr. Fillebrown has to say about property in land. I have a great deal of respect for Mr. Fillebrown. He treats the subject with fairness, which can not be said of all those of his faith, at least this has been my experience.

Is Mr. Fillebrown in the room? [Voice.] "Here he is," Mr. Shields continuing, "I am glad to recognize your face." [Reading from Fillebrown's book]. "What is the ethical basis of the single tax? The common right of all citizens to profit by value of land which are a creation of the community. Does such right mean the nationalization of land? No, it means rather the socialization of economic rent.'" What is meant by the term, "socialization of economic rent?" Let Mr. Fillebrown answer: "Gross ground rent—the annual site value of land, i. e., what land is worth annually for use, what the land does or would command for use per annum if offered in the open market.'"

I ask you gentlemen in all candor, if you owned a tract of land which was bringing you a net return of five hundred
dollars a year, which is the economic rent, and society takes this economic rent, how much interest have you left? You still own the title, the paper, but of what good is it measured in dollars? Gentlemen, I would call such a method practical abolition of private property in land. Henry George could see that if the rent was taken in the form of a tax, he could safely leave the shell to the owner, and so stated.

Mr. Fillebrown asks the question, "Does the common right to rent involve the common ownership of land? Not in the least." Now if there is a gentlemen here who has the courage of his convictions, and still believes that the owner's interest in the land does not disappear in exact proportion that the state's interests appear in the form of taxes, which is the plan proposed to take the economic rent, let him stand up. [Three gentlemen rise.]

Perhaps it would be well to refresh your memory, as to the economic principle of the incidence of the taxing of land values. The sale value of land is determined by capitalizing the economic rent. For example, A. owns a tract of land, which brings him a gross yearly rental of $100. From this $100 he has to pay his taxes, which are, let us say, $10. This leaves $90 to be capitalized, at, say, 5%, which would be, $1,800, and this would be the commercial value of the land. In other words, A. has an asset in this tract of land which is worth $1,800. Now let the taxes on this tract of land be increased from $10 to $20 and what is the effect upon the value of the land? We now have but $80 to capitalize at 5% which is $1,600. The land value has been reduced $200 by the state taking ten dollars more in taxes. As the taxes increase, the land values must decline in like proportion. Each ten dollars' increase in the tax will reduce the value of the land $200. When the tax is $90 the land will be worth but the small sum of $200, and when the state takes all the economic rent, which is what Mr. Fillebrown says we should do, what would the land then be worth? I hope I have made this clear to you, for it is a very important point in this discussion. The single tax contemplates the extreme of this illustration. The taxing of the unearned increment in land, is but the beginning of the ultimate end the advocates
desire, and therefore we who believe in private property in land, in the sense of it having a commercial value, must protest against any step toward the adoption of a principle that declares for the common ownership in lands.

We are told by the single tax advocates, that the land is a gift of the Creator to all mankind alike, that it is a divine heritage. Granting this to be true, the system then that will bring land to the highest point of productivity, and usefulness, must be in keeping with divine ordinance. And I dare say, that there is not a gentleman here, who will not say, that land under a system of tenantry will not yield in any form the fruits that it will under the care of the owner as we now have it.

**What Private Ownership in Land Will Do**

Under the present system of private ownership of land, the individual who owns the land,—there are of course some exceptions,—tills the soil to the best possible advantage. He improves the soil by fertilizing, drains the low lands, clears the land of the timber and underbrush, fills up the low places, and levels down the little knolls, and in every way possible brings his land up to the highest standard possible.

Under our system of private ownership of land we are inspired by the hope of the reward, that we may some day receive for our energy, to continue the struggle, to endure the hardship, to suffer the sting of poverty, to renew our energy, thus continuing the battle until victory is won. What is the incentive for this struggle? Do you think for a moment that a tenant, a mere renter, having no interest in the land, other than what his wages would amount to, would do as the owners of the land have done? Gentlemen this is a most serious question. One that requires the deepest thought to penetrate, and unravel the intricacies of the single tax.

**Effect on Urban Property**

There is a feature of this question, of which I have not yet spoken, that of urban property. I presume many of you are aware of the fact that it has been my fortune, or misfortune,
for the past two years to combat the single tax in Washington and Oregon. Seattle has twice defeated the single tax, under my leadership; Oregon, once. I want to give you a practical illustration of how the single tax would be a bar to city improvements.

Seattle is built upon seven hills, and some of them were a bar to the further growth of the city. It was therefore necessary to remove these obstructions to permit of a greater Seattle. The section of the city that required this improvement was organized into a regrade district, the property owners in this district would be compelled to pay the cost of the improvement, which would cost some $20,000,000. The property owners were willing to pay the bill, they were willing to take the chance, they believed that the increase in the value of the land would well repay them for the cost of the improvement, the interest, and the risk, which is an element with which we must reckon in all such undertakings.

To make this point very clear to you, let us suppose that I have all these lot owners before me, as you gentlemen now are, and I say to them, "this improvement will cost each of you in proportion to the property you have in the district. Are you willing to risk your earnings in this great improvement?" After a number of gentlemen had spoken in favor of the improvement, pointing to the possibility of Seattle becoming a great city, and that the increase in the value of the land justified the undertaking, the vote was unanimous for the improvement. Now what do you think the result would be if Mr. Fillebrown should ask to speak, saying to the men there, that at the next election Seattle would adopt the single tax, and convince them that his statement would become a fact, and that the City of Seattle would enjoy the increase in the land values, and not the owners, that under the full application of the single tax, the city or the state would take the full rental value of the land. Do you think that those men would proceed with this improvement? Certainly they would not. Those hills would remain as they were. There would be no reward. You can not force a man to invest his cash when there is no return in sight. This illustration while on a large scale, exposes to plain view one
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of the many evils of the single tax. It requires no great stretch of the imagination to apply this example to thousands of cases in a greater or less degree. The results from such a condition, both social and economic, should be apparent.

Under the present system of private ownership of land, the waste lands of the country have been made to bear fruit, the barren and lifeless deserts have been converted into pastures green, into fields of waving grain, where may be found most thriving communities. Under a system of land communism, land socialism, the common ownership of land, where the individual has no interest in the land, other than to toil, receiving but a fair compensation for such toil, if nature favors him with a good harvest: would there be any incentive for individual initiative? What would cause men to engage in great undertakings, such as reclaiming desert lands, spending millions of dollars in such enterprises? I say to you gentlemen, that there must be a reward, there must be a compensation, there must be some magnetic force to move men to action.

**Individualism**

We look with pride, on the wonderful development of our country, and we are justified in doing so. We must not fail however to recognize the all impelling force behind this great activity. We are creatures of environment. Our social, moral, intellectual, and material progress is but the expression of the individual units of our great social family. Any law, rule, or custom, adopted by a community, state, or nation, that will materially affect individuality, individual unfoldment, such common ownership of land, must in time bear evidence of deterioration in that community, state or nation. In order to have permanent improvements which are so essential to the progress of a nation, and to guarantee to the individual that where he sows he may also reap, and reap the full harvest, we must have private ownership of land.

Private property in land marks the first step in social, moral and material progress. Indeed we may well call it the first mile post on the great highway of civilization. Until private ownership of land was a custom, there was but little
or no progress made in agriculture, which is so essential to social and material progress. Go where you may, where land is held in common, and you will find that there is but little or no progress made.

**A Single Tax Fallacy**

I would like to call your attention to an argument which the advocates of the single tax claim to be irrefutable. I can best present this argument by relating a conversation I had with a gentleman in the office of the Oregon Equal Taxation League in Portland, Ore., of which I was then secretary and conducting a campaign in that state. This gentleman came to my office and asked to see Mr. Shields. When I told him I was Mr. Shields he said, "Can you tell me of any good reason why I should not vote for the single tax? The present system is rotten. It discourages the man of thrift and enterprise, and offers encouragement to the land hog and dog-in-the-manger individuals who will not act, nor allow others to act."

I told him the single tax was a very big question, but, if he would point out specifically the features of the present system which he considered so objectionable, I would undertake to show him wherein he was wrong.

He replied, "I have been a traveling salesman for a great many years. Contrary to the rule, I have saved my money. Twelve years ago I purchased a lot in the City of Portland and upon this lot erected a very substantial business block, costing some $10,000. Prior to the erection of this building, however, some of my fellow traveling men friends had followed my example and purchased lots in the same locality. The moment my building was erected their lots increased in value as did all others in that district. I was fined in the form of a tax at the rate of 3% on my building. After a while another building was erected, and again the lots in that immediate vicinity increased in value—not by any act of the owner, however, but by the thrift and enterprise of the individual who was willing to risk his money in erecting a building upon his lot. He, too, was fined for his enterprise, while the dog-in-the-manger lot owner—that is, the
man who does not improve his property—profits at the expense of the man who does improve his property. Such a system is unjust. It offers no encouragement to the man who would improve. Under the single tax, these vacant lot owners will have to improve their property, sell it, or lose it through taxation as they cannot afford to hold property vacant with such a high tax rate as will then apply. Now, what have you to say?

I said to him, "Has your investment been profitable?" and he replied that it had been profitable as a whole. "Had your lot not increased in value, would your investment have earned you 10%?"

"No. I think not more than 6%.

"Has your building been fully occupied at all times?"

"No, there has been difficulty in securing tenants at various times."

I then said, "Perhaps you have asked too high a rental for your building."

"No, I have based my rental at 6% on the building, and I doubt very much if the building has earned 6% considering the deterioration and upkeep."

"In the locality in which the building is located, what is the proportion of the improved to the unimproved lots?"

"About five vacant to every two improved."

"You have complained of these vacant lot owners not improving their property and that those who did improve their lots were, as you say, fined for so doing. Now, let us suppose that all these other lot owners in your district were just as thrifty as you and, each and every one of them erected a building equal to or better than yours. Had this been the case, your investment would not have returned you anything like 6%, would it?"

"Well, I do not think they would be fool enough to do that as there would be no demand for the buildings."

"You think then, that there has been all the buildings erected for which there has been a demand?"

"Yes, I think there has."

Then I said to him, "Do you think that if all these vacant lots were improved by substantial buildings they could be profitably rented?"
"Well no, I hardly think that they could."

"As a matter of fact then, you have no desire for these vacant lots to be improved any faster than there is a demand for the buildings. And is it not a fact that buildings have in the past always been a little ahead of the demand? In view of these facts, it should be apparent that the vacant lot owners of whom you complain are contributors to your investment. Their lots bear them no returns. The very fact that they do not erect buildings, permits you to have your building profitably occupied, and the reason that they do not is because there is no demand for the buildings. These vacant lot owners are contributors to your welfare in another way. You have said that there were five vacant lots and two improved in your district. If this be the case then, these vacant lot owners are paying five-sevenths of the cost of the street grades, side walks, watermains, sewers and many other things that it is necessary for you to have to rent your building. These vacant lot owners are not getting any of the direct benefits, only by the increase in the value of their lots, of which you complain. In addition to paying five-sevenths of the improvements, they pay their general property tax, which pays for the fire and police protection your building enjoys. Furthermore, these lot owners live in various sections of the country, they send their hard earnings to the city of Portland to pay these special and general taxes, which adds to the blood of commerce, money, making for greater commercial activity, which in turn adds to the rental value of your property.

You must not be unmindful of the fact that a city can not grow faster than its trade and commercial relations will justify. There seems to prevail among the advocates of this single tax doctrine an idea that we have but to build houses in a city and they will be occupied at once. I can readily understand that as population increases more buildings will be required. But I know of but one way of increasing population, and it is not by building more houses. [Applause.]

My interviewer had been convinced of his errors, and asked for some of my books, saying he would be one of my workers to defeat the single tax. This illustrates gentlemen how many
honest, but misinformed, and uninformed men are carried away with the single tax doctrine. There are many other points equally as fallacious as the one just mentioned.

The single taxers point to the great wealth in city lots, and remind you of the increase in the value of those lots, and how the owners have grown rich in society-created values. They never tell of the millions that are made by the exploitation of the product of farm, factory and shop, at the direct expense of the consumer.

When I went to Seattle some thirteen years ago I engaged in commercial pursuits, dealing in the product of the farm, factory and shop. I have created nothing, but I have prospered, and have lived in comfort during this period. I know of others who invested their money in Seattle real estate. They have had many sleepless nights, thinking of how they could manage to meet their special assessments and taxes, wondering if the time would ever come when they could get their money back with interest. Gentlemen I have remarked to many of these people during the dark days in the real estate world: "I would not want to take your shoes and carry the load you are now under." Finally they win, and I have won in my business. I ask you why should they, these faithful ones, the land owners, be called upon to pay all the cost of government, which has been of greater benefit to me than to the land owner, and I escape paying any part of the tax. Wherein is the justice, wherein is the sense?

I could talk for hours and not tell one half that could be said against the single tax. I realize that I have taxed to the limit the latitude so kindly given me, for which I am most thankful. I can hear that watch calling to me, stop. In closing let me say that common ownership of land seems to have been a misfit in the general plan of social evolution, as it was discarded in the grey dawn of civilization, and where it may be found at all you will find crime, want and misery deepest.

Thank you gentlemen for your kind indulgence. [Applause.]

Calls for Mr. Fillebrown.
MR. CHARLES B. FILLEBROWN, of Massachusetts: I think every point, barring the social value of Adolph Busch's fortune, which the speaker (Mr. Shields of Oregon) has touched upon, will be found answered categorically in the 1914 Single Tax Catechism from which he has quoted. I now advertise my intention by your leave to mail to each member of this conference a copy of this little pamphlet. Furthermore, to all those so desiring I will send a copy of The ABC of Taxation which offers a painstaking detailed explanation of each point enumerated in the Catechism. This book and pamphlet are the fruits of fifteen or twenty years of diligent application, and constitute the best reply I could contribute to the discussion.

I do not and cannot concede that the single tax involves the abolition of the institution of private property in land and the abrogation of individual title, tenure and estate in land. It does not imply wrong either in private ownership or in public ownership of land, but it does contend that as a matter of fact whatever name may apply to the private holding the essentials of tenure must be the same.

Land is one thing and the rent of land is another. The fundamental principle of the single tax is that land was made for use. Now the use of land implies improvements; factories, stores, houses and crops upon it. The dictionaries give two distinct definitions of property, property in houses, which is absolute, property in land, which is not absolute. The right to land is the right to the title of land. It has existed for centuries, and as Mr. Shields so eloquently pleads, it is woven into the minds and the hearts of mankind that they should have land for their homes. Taxation cannot destroy this title to land, nor can it detract anything from the value of the land for use.

So we say you may take the rent of land. Because the community created that rent the community has a right to tax it. The title to land is absolute as against any other individual, subject only to the right of eminent domain and the sovereign power of taxation.

The simple argument of the single tax is, when you take the rent of land in taxation you are taking that which is a
social value. It is a value created by the community just as the value of your land is enhanced by drainage, fertilization and cultivation; because it is created and maintained by the constant expenditure of enormous volumes of taxes which are collected every year and spent every year to maintain that value, and for nothing else. So I beg of you all to dismiss it from your minds that the single tax has anything to do with the destruction of private property in land.

Mr. Adam Shortt, of Canada: I have noticed in a good many American publications reference to the experiences of Canada in the way of the single tax, particularly the laws adopted in our western provinces, and it occurs to me that a word might be put in here with reference to the actual results in that part of the country. Professor Johnson and others this evening have accepted as beyond question the assumption that the values of lands are contributed entirely by the community and never by the land holder. Now if any of you care to go up to any of our typical western cities—Vancouver, Calgary, Edmonton, Saskatoon, Moose Jaw or even Winnipeg—what you will find is this: that the people who were there before the land speculation started did not raise the values of land there so suddenly as they have been raised within the last six or eight years. You would find if you went into an actual analysis of the situation that the process was exactly reversed. People have flocked into those cities because certain men went there and systematically organized land booms. The single taxers tell us that men are entitled to take what they create, but they are not entitled to take what other people create. Now a certain group of land speculators have created nine-tenths of the land values out there and have sold them to other people, but what the other people are going to take with them in the end remains to be seen. The incipient boom that was started off led a great many other people to rush in and that made a demand for houses. They started to build houses. You make an analysis of any of those cities and you will find that the city has grown up through its own construction because in many of those cities there is no industry; there is nothing going on
except incidental industries—sash and door factories, brick making, etc.—incidental to the construction and building of sidewalks, city streets and all that. You have an army of people brought in there to do these things and the speculators have gone ahead of that and sold out. Now I say the speculator obviously created these values and upon the principle of a man being entitled to what he himself creates he is entitled to all that he got.

But here is the other point: they say taxation will get after the speculator—that the single tax will catch him. Go to those same cities, analyze the process, ascertain who the people are who took in hundreds of acres, converted them into city lots, sold them within the next twelve or eighteen months to other people and then went out from there and took in more land and sold it again—find out whether the single tax got after them. No, they got in and they got out and some are multi-millionaires to-day. They hardly paid a cent of taxes, and they don't need to pay any more. They have unloaded on other people, and the people on whom they first unloaded have unloaded on the second comers and made money.

This was a common experience with the type of man who had made twenty or thirty thousand dollars, not one of the rich speculators, but a secondary speculator. He would talk about having come from down east, and would say "At the school they all looked on me somewhat as a back number. There was Jim So and So who always stood at the head of the class and I was way down; but I tell you when it comes to the real thing in life—that is what puts it up to you. Those fellows are stuck in the mud down there and I am worth thirty, forty or fifty thousand dollars. That is the real test of intelligence and brains." "Well," I would say to some of these people, "yes, but can you show me any fool out here who dipped in and lost?" [Laughter.] Everything was going up. It didn't matter what they bought; it went up. City lots, rural districts—everything went up and up and up. But what I want to see is, when the thing starts the other way, who is going to save himself. That is the man I will take to have the brains, and the man with
the stuff on his hands will be the back number. He is the man who is going to pay the taxes. I do not take the real speculator to be the man who buys now and has to wait ten, twenty or thirty years to turn over. The real speculator out there is the speculator who buys this year and has half of it sold next year and the other half the year after. You go to those cities and you will find that some of these millionaire speculators have gone away. Some of them who had money and who invested it through confidential agents took the money and went away; but a number of others joined the city council, started in to invest in sky-scrapers, big office buildings, stores, etc., which were in demand, and that is where they are now. And I did not find a single land speculator out there who was not shouting for the single tax. It gave him a halo of righteousness, to begin with, that he was the man paying the taxes,—and he wasn’t of course,—but it enabled him to escape taxes on his investments in the city.

Then of course there are a dozen other things familiar enough in the rapid development of the real estate booms in these cities. Every speculator is anxious to have the real estate assessed as high as possible because it enables him to borrow that much more money at fair rates in the old country and other places to put into local improvements, which give employment to other people to put up these stores, shops, etc. So long as the foreign capital is being brought in they are booming their land and developing the cities. I say if any of you are curious, go out and investigate yourself. Don’t write to the mayor of the city, or the city clerk or the treasurer because you know what you will get, but go and look into it. Get these very people, single taxers and so on, to sit down half an hour and go into details with them and you will find out. I have said that in cities out west—in Saskatoon and Winnipeg—and I have had a lot of single taxers come to refute me, and when I demonstrated it they hadn’t a word to say.

When it comes down to an absolutely solid basis all these cities will come to a point at which they will have to worry along and have to get their industries and learn over again, and then and then only I would look to them as an example
for your older cities and older country. And I am perfectly confident from what I have seen and heard out there that there will be a terrible sweep the other way, because no man is going to pay a high price for a lot which he expects to convert into a garden, with perhaps a small house on it—not if he is taxed up to the limit and all these multi-millionaires go scot free with their fine buildings in the cities.

On this question of land, I think Mr. Shields made it perfectly clear that if you take away the rent value from a piece of property there is nothing left. Mr. Fillebrown says you still can own the property. Of course, so you can . . . if you care to. [Applause.] You can put up a fine building on the property and if the state comes along and takes away the building rent you can own that too, but to what good. But Mr. Fillebrown may say the land was put there for use and the building was put there for use and when a man comes along and uses the building to sell goods in it, to keep offices in it, he says he is getting the value. Of course he is. And if the state takes the rental of the land and the rental of the building, the other man can go hang. That is just where it is. So you can go on up and take Mr. Shields' principle all the way up to the top.

Over in Canada we have a railroad—some of you have heard of it by name—the Grand Trunk. English investors put in over one hundred millions and they own those shares to this day, and they hand them down in their families I am told in the old country, and they haven't got a cent of dividends in forty years and there is no value in it at all . . . except when somebody wants to get partial control of the railroad. Then it is convenient to go around and pay a dollar or two for the shares for their voting power, but that is all there is to it.

I have made these remarks because I see your papers referring every now and again to our Canadian example as a justification for your hope in that sort of thing. I want to say, before following our Canadian example, wait and see what happens. [Applause.]

Mr. A. C. Pleydell, of New Jersey: It is unfortunate that
all through the discussion this evening there has been a continuous confusion of three very different propositions, only one of which is properly before the meeting. There are three aspects to what has been discussed here under the very general and somewhat misleading name of the single tax. The first aspect of the question is one which has no place in a gathering concerned with fiscal affairs, but relates to that fundamental social philosophy held as a cardinal belief by Henry George, and other thinkers, of the equal right of all to the use of the earth. That is entirely a social question. For while Henry George proposed to establish that equal right by taxation, it could be established in other ways, and the fiscal aspect is only incidental.

The second aspect raises the question of what is called the "single tax limited";—a belief held by many men who preceded Henry George, and by some of his contemporaries, that the expenses of government could be raised more easily, more cheaply, more certainly, and with better diffusion of the incidence of taxation, by a tax only on the value of land than by any other system of taxation. That is a fiscal proposition which would be well worthy of discussion before an assemblage of this kind, provided the subject was announced in advance and there were plenty of opportunity for both sides to be heard. Incidental to that discussion, there would be some interesting arguments from both sides on the incidence of taxation, to which too little attention is given. I should like to take part in that discussion myself on an appropriate occasion. But I fail to see any need for the discussion now of either of those two aspects, when we have the third properly before us, in the proposition to reduce the tax rate on buildings to one-half of the rate levied upon land.

That is solely a question of fiscal policy. The only reason for dragging in the single tax red flag or bugaboo was to obscure the question. If we are to take no step forward, make no change whatever in taxation because it may tend in the direction of the single tax, we will be petrified, for the existing system of taxation is to tax everything in sight at a uniform rate so far as we can. Now necessarily every deviation away from that uniform rate is a little step in the other
direction. We have taken quite a few steps along that line, and a great many people do not think the single tax dangerously near on that account. At least we have not suffered untold calamities from making rational changes in our tax system from time to time—and that is really the question before us this evening.

Professor Johnson unfortunately in his paper held up a lot of straw-men, for he put up arguments, made by over-zealous persons on the other side of the discussion, that he knew were largely fallacious. Because somebody makes a mistaken argument on a proposition does not say that the proposition is unsound. It may be that to cut the tax rate on improvements would not materially decrease rents, or raise wages, or cut down the cost of living, and yet it might be a desirable thing to do for other reasons, that have nothing to do with the social effects. The proposition should be taken up entirely upon its own merits.

I speak feelingly on the question of reducing the tax on buildings for it is a live political question in New Jersey—being advocated in the platform of the party which ranked second at the last election, and now being discussed by their candidates throughout the State. The other parties have not antagonized the proposition, though they have not favored it; and it is a question upon which much is being said and something is likely to be done, I think.

One of the things that impressed our investigating commission the most perhaps, as we went around, was the complaint that any attempt on the part of the property owner to do some little improving on his house immediately brought down upon him the wrath of the assessor and the iron hand of the tax collector; that if he put a coat of paint on his house for fifty dollars they would add three hundred or more, or if he remodeled the inside of his house and the alteration was visible outside he would be assessed several times its actual cost. There is a constant complaint, that should be recognized, that the existing system of taxation does unduly penalize the visible, tangible improvement that a man puts on his property, particularly upon his residence. There is no getting away from that fact and every man here who has to do
with assessing work knows it. Down here in Schenectady, which is a typical factory town, where the workingman owns his own house, everybody knows that painters are practically out of work for two or three months before assessment time because everybody puts off painting his house until after the assessor comes around. [Laughter.] And the same thing is true in the small country towns where the assessors go around and look at property. How are we going to correct those things? They call for correction. And a reform which would reduce this penalty on the improver should not be antagonized, because the ultimate result might lead us into the whole single tax, into taking all the rent of land.

The American people have shown a capacity to adjust themselves to the changing conditions of the times and to take just so much as they wished of any suggested reform, and that has been the whole history of progress in this country. Time and again we have seen in fiscal reforms, and in other reforms, a very radical program advocated and debated for twenty or thirty years perhaps,—and some day you wake up and find that without any excitement at all one particular feature of the program has been put in operation, and the rest forgotten, and everyone is satisfied. We are never going to get anywhere if we refuse to consider any one proposition on its merits, for fear that if it were carried out to its ultimate conclusion the results that would then be reached might now seem unsatisfactory to us. It would be like a man opposing any tax on income because it meant the right to take all of a man’s income.

Mr. Shields made the point that you should not take any of the tax off buildings because then you put more tax on land, thereby reducing its value. Let me give a simple illustration. Here is a watch. Under the laws of New Jersey it is supposed to be assessed to me. I tell you frankly it is not. If an assessor went around town to assess watches he would be lynched. But the law says I am taxable on that watch,—and if enforced would make me pay about a dollar a year on that watch. And the watch typifies personal property which is assessed. If I had to pay a dollar a year for a number of years on this watch I might say that its value
was being reduced, that it was gradually being taken away from me. I would either have to earn that dollar to pay the tax, or borrow it each year until the loans equalled the value of the watch and then give up the watch to repay the loan. The practical effect of the tax therefore is to take a piece out of the watch each year. Yet these gentlemen object to having a piece chipped off their land value every year. I have more reason to object because the things on which that money taken from me would be spent—street paving, fire protection, police protection—do not add one cent to the value of the watch, but they do add to the value of land. The land where I live is worth twice as much as land across the borough line in the township where they haven't got those things; and the largest part of the difference in values comes from the difference of government expenses. It is a perfectly fair proposition to say that the people who get the direct benefit of government expenses in the added value of their land should pay their share, and those who do not get the benefit should have relief. The proposition is well worth discussion and should be taken up without any bugaboos being dragged in by the heels. [Applause.]

Mr. Frank M. Loomis, of New York: I have listened to this discussion with a good deal of interest, and it occurs to me after hearing the paper read that the argument against the halving of the tax on buildings is all but conclusive. But it seems to me that the proposal for the tax on unearned increment occupies a different position. As I understand it, it is not intended to take the whole of the unearned increment but a part of it—a certain percentage—in the same way that we would tax inheritances, the same as the corporation tax, the same as the tax on stock transfers and taxes of that kind. Now it doesn't seem to me that if you are going to take this form of tax simply because of the convenience—the relative ease—with which it can be assessed and collected—if we are committed in any way to the proposition—that we are taking all of the unearned increment or doing an injustice because of the fact that we cannot get at so readily the unearned increment of personal property.
This is the first of these conferences I have attended but I have noticed in the papers read at previous sessions, especially the last session, that a good deal of emphasis has been placed upon the desirability of dividing up this tax—doing away with the general property tax and taxing specific kinds of property and in that way obtaining sources of revenue which otherwise were not available. Now I cannot see any injustice in pursuing that theory, the same theory you follow in the inheritance tax. I cannot see any injustice in putting a tax—not a confiscatory tax, but a relatively small tax perhaps—upon the unearned increment of land; that is if it can be ascertained, as it seems to me it could be in the manner suggested in the paper.
FOURTH SESSION

Friday Morning, October 24, 1913

PRESIDING—EDWIN R. A. SELIGMAN, COLUMBIA UNIVERSITY, NEW YORK

Program

   Egbert E. Woodbury, former Chairman State Board of Tax Commissioners of New York, Jamestown, N. Y.

2. Some Problems of Corporate Taxation in New York State.
   Randall J. LeBoeuf, Former Justice of Supreme Court, Albany, N. Y.

3. Supervisors of Assessment and the Daniels Decision.
   Thomas E. Lyons, State Tax Commissioner, Madison, Wis.

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NEW YORK'S NEEDS

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The subject of this paper presents an unlimited field for discussion; allows the widest latitude for individual judgment, and will be found prolific of very great divergence of opinion.

These differences of opinion in respect to tax problems are, in a large measure, the result of our schooling,—the different viewpoint from which we have studied the problem, and always influenced by our environment.

The time allowed for this discussion will only permit the pointing out of a few of the more urgent needs of the state in the matter of taxation from my viewpoint.

In dealing with this subject I shall frankly express my opinion, upon my own responsibility, freely according to others a like privilege.

In the preparation of this paper I have borrowed from my own previous writings, some of which are embodied in our state tax reports.

We are to-day confronted with a condition of state and municipal extravagance which is at once unwarranted, startling and dangerous. The aggregate of our taxes is mounting higher and higher year by year and our bonded indebtedness, mortgaging the future, which must be paid by future taxation is increasing at an enormous rate,—at the rate of many millions of dollars annually. So great has been the increase in amount of state and municipal credits in the past few years, that we now find the market glutted with these securities and great difficulty experienced in disposing of them even at more attractive rates of interest than have heretofore prevailed. This condition is probably due more to the fact
that the issue of these securities is in excess of the legitimate demands of the investing public, than to any fear of default in payment, but it has had the effect of increasing the rate of interest on municipal securities, within the past ten or twelve years, nearly if not quite one per cent, as testified to by students of the question. Nor is this all: While the wealth of the state which must be taxed to pay these ever-increasing expenditures and indebtedness, is rapidly growing and increasing and the assessments of real property, which bears the greater part of these burdens, are increasing from year to year at a rate in excess of the growth in wealth, yet notwithstanding all this, our tax rates, already high, are gradually growing higher year after year,—thus demonstrating one of two things. Either that we have been too niggardly in the past and have neglected to make those expenditures which good government demanded, or that we are too extravagant at the present time. There may be some measure of justice in both claims but the verdict of the people, who are bearing these ever-increasing burdens of taxation, if I am any judge of public sentiment, is that our present-day expenditures are extravagant and excessive, that we are not getting the worth of our money; that we are living beyond our legitimate income in municipal expenditures and that the burden of taxation upon real property especially, has practically reached the limit of endurance.

The last annual report of the State Tax Commission shows that in fifty years, from 1860 to 1910, the population of the state doubled 2.34 times, whereas the taxes in 1910 were 11.63 times greater than in 1860; the rate of increase in taxes being nearly five times greater than the increase in population.

These conditions are well illustrated by statistics pertaining to the City of New York. Judge McCall, one of the leading candidates for mayor of the city, makes the question of the ever-increasing burdens of taxation the paramount issue in his campaign, and points out some very interesting statistics. The tax budget for 1913 was $192,711,441.16, an increase of 23% in the four years since 1909. (This was against a budget of $77,473,084.00 in 1898 when the greater city was created.) The funded debt, on July 31, 1913, was $1,
168,753,648.34, an increase of 32.74% during the four years period; to which must be added contractual obligations incurred, amounting to $168,919,860.85, for which stock and bonds are to be issued,—thus bringing the total funded debt of the city to $1,337,673,509.19 or a total increase in the four-year period of over 45%. (This total funded indebtedness is to be compared with the funded debt of the city at the time of consolidation fifteen years ago, of $324,967,156, and shows an increase of over one billion of dollars during that period, and is more than $350,000,000 in excess of the national debt.)

During this four-year period the tax valuation of real property increased 17.62% and the tax valuation of personal property decreased 26.59%.

Preceding the giving of these figures, Judge McCall summed up the general situation in this language: "We have reached a condition in this city (New York) which, in my judgment, if a halt is not called and some plan of alleviation and relief found, the owners of real estate may well contemplate the coming of the hour when confiscation is at hand."

The Bureau of Municipal Research of New York City in a bulletin issued July 12, 1913, points out that during the past ten years, from 1903 to 1913, the assessed valuation of personal property and of ordinary land and improvements has increased 49.23% and that the tax levy thereon has increased 90.01% as against an increase in population of 42.09%. That, disregarding any change in the valuation which may have occurred during the ten year period, the rate of taxation has increased 27%.

It has been the practice—probably a policy born of necessity in New York City—to increase the assessed valuation of real property to meet the constitutional limitation of 10% on the creation of indebtedness, until to-day it is probably true, as claimed, that most of the real property is assessed at full value. Notwithstanding this condition respecting assessments, the tax rate has increased from year to year, as already pointed out, until in 1913, it reached 1.81% in Manhattan on each dollar of valuation (varying slightly below this rate in other boroughs). This was the rate necessary to raise the required amount of taxes after deducting all amounts
raised from indirect sources. This rate does not seem high to many of us who live in other cities of the state where the rate is even higher, but in these other cities the rate is higher by reason of a lower assessed valuation of property, in most instances. The significance of the burden of this rate will be better appreciated when we stop to consider that it is the equivalent of the payment of interest at the rate of 6% upon a mortgage covering more than 30% of the value of all the real property in New York City,—in other words, every dollar of real property assessed at full value has a 6% mortgage upon it for more than 30% of that value in the way of annual taxes.

I have not singled out New York City as an example of municipal extravagance for the purpose of condemnation, but rather because the facts and figures are available to demonstrate a condition and a tendency; varying only in amount and degree, the same tendencies to extravagance prevail in most cities of the state. Nor have I alluded to Judge McCall because he is a candidate for office, but rather because, as a man of eminence in the state, a man of scholarly attainments and a student of conditions, he has reached the inevitable conclusion that the burdens of taxation upon real property have practically reached the limit of human endurance.

The state has been no laggard in the enormous increase and extravagance of its expenditures. The past seven years have been an era of social reform. We have attempted to regulate not only the corporate entity in its relations to the public, but the social and moral conduct of individuals in their relations with each other, and the rights, conduct and obligation of citizens in their relations with our body politic. Some of these reforms, accomplished and attempted, have been good, bad or indifferent according to the standpoint from which viewed by the individual. I have no purpose in this connection to discuss any of them; but rather to direct attention to the fact that during all this period of time, while the minds of the people have been engrossed with these matters, there has been an unprecedented increase in public expenditures,—an increase, in my opinion, out of all proportion to the necessities of the case. For a number of years prior to this period
our state revenues from indirect sources were sufficient to meet expenditures and leave a comfortable surplus. We have had our normal increases from year to year from these indirect sources and have found new sources of revenue and still to-day we are confronted with a direct state tax of upwards of six millions of dollars to be borne almost wholly as an added burden upon our real property.

Far be it from my purpose in alluding to these conditions to inject any element of party politics into the discussion or to criticise legitimate expenditures made to promote the general welfare of the people, or to argue against a natural law that governmental expenses will increase as population increases and as general public requirements demand.

The paramount need in New York State, at the present time, as respects both state and municipal administration, is the practice of a thorough-going system of retrenchment and economy. Those things which are necessary to the public welfare must be provided, but conveniences and luxuries cannot be justified at the expense of an ever-increasing tax rate. We need a more thorough system of supervision of purchases and a better system of auditing and supervising expenditures in general, to the end that we may obtain a dollar in value for a dollar expended. We need less politics,—less expenditures in aid of political preferment and the application of better business methods in the administration of public affairs.

More Equitable Distribution of Taxes

We need a more equitable distribution of the burdens of taxation according to ability to pay. In other words, the wealth of our state represented in the holdings of personal property should be required to bear its just and equitable share of tax burdens. The great bulk of personal property to-day either escapes or is exempted from taxation.

Very much the greater part of all taxes are for municipal purposes, and upwards of 75% of these municipal taxes, plus over six millions of dollars for state purposes, are raised by direct levy on the assessed value of real and personal property, and the remaining amount is raised from licenses, privi-
leges and special taxes affecting both real and personal property. The assessed value of property in this state for the year 1912, as shown by the report of the state board of tax commissioners this year, was:

| Real estate | $10,684,290,188 |
| Personal property | 447,488,729 |

A total of $11,131,778,917

The percentage of real property to this total was 95.98% and the percentage of personal property was 4.02%. Thus real property bears 96% of this burden of direct taxation as against 4% borne by personal property, and this in light of the fact that surely personal property in the state at least equals the value of real property. I have yet to hear an argument to convince me that this is just, and yet the amount of personal property appearing upon the assessment rolls is growing steadily less year by year. But it is urged that through our system of classifying certain kinds of personal property and taxing it at fixed rates, and certain other indirect methods in vogue in this state, we are deriving more taxes from personal property than ever before. It will serve no useful purpose to enter into a discussion of this contention, because it is no answer to the vital question which concerns us as to whether or not it is being justly taxed in comparison with real property.

About the first of July last, the Department of Taxes and Assessments of New York City, published a report of a subcommittee of that department, composed of Edward Kaufmann and Daniel S. McElroy, both able and estimable gentlemen, showing the result of their study of our present system of taxing personal property. One of the principal objects of the report was to show that more taxes are being collected on personal property than ever before and, apparently, to justify the enactment of the Secured Debt Law.

Under the heading “The Enormous Revenue Derived from Special Taxes on Classified Personal Property in the State of New York”, we find the following:
1. Corporation taxes produced .................................. $10,349,164.76
2. Tax on organization of corporations produced ............ 472,959.81
3. Inheritance tax produced ..................................... 12,153,188.84
4. Stock transfer tax produced .................................. 3,653,037.24
5. Secured debt tax produced .................................... 1,411,567.60
6. Mortgage recording tax produced .............................. 3,704,648.90
7. Tax on motor vehicles produced ............................... 1,053,762.25
8. Bank tax produced ............................................ 4,528,705.85

A total of .......................................................... $37,327,026.25

I find myself unable to follow a line of reasoning which leads to the conclusion that these are taxes on personal property as respects some of the items.

"Corporation taxes", are really levied as a license fee for the privilege of doing business as a corporation in this state and are measured by the amount of capital stock and income. Neither tax is a tax upon property, nor does either diminish the amount of property liable to assessment for taxation purposes. Capital stock consists of both real and personal property and income is derived from both sources. If we are to treat these taxes as indirect taxes, they are based upon both these classes, with the amount of real property probably predominating.

"Inheritance Taxes" are taxes based upon the right or privilege of succession, measured by property values, and withdraw no property from assessment or general taxation. As an indirect tax, if it may be so treated, it is based upon real as well as personal property, with the amount of real property greater than personal according to the report which we are considering.

"Stock Transfer Taxes" are in no legitimate sense taxes upon property but if, by any process of reasoning, they are by indirection to be so considered, then the tax is based upon both real and personal property represented by the shares transferred.

I have no desire to quarrel with my good friends who made this report, but I do feel that their report is slightly misleading in the statement, or necessary inference conveyed, that all these taxes are derived from classified personal property.
But let us examine this report for the purpose of seeing how much personal property we have, and how much escapes taxation. The report estimates the amount at $10,924,338,971 made up as follows:

<table>
<thead>
<tr>
<th>Class of Property</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tangible personal property</td>
<td>$3,567,365,621</td>
</tr>
<tr>
<td>Mortgages</td>
<td>3,704,648,900</td>
</tr>
<tr>
<td>Bonds</td>
<td>1,852,324,450</td>
</tr>
<tr>
<td>Credits, etc.</td>
<td>1,800,000,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$10,924,338,971</strong></td>
</tr>
</tbody>
</table>

I feel that this estimate is conservative in the extreme, and is to be compared with an estimate made by the state board of tax commissioners in their last annual report, that the amount of personal property in the state was not less than $12,000,000,000. The item of tangible personal property in this report is taken from the Federal Census Bureau estimate of 1904, by a process of deduction, and quite clearly, at least excludes the equipment of steam and street service railways which, if added, would greatly increase the amount of the item. Then again, it is fair to assume that the amount of this class of property has greatly increased between the time when the Census Bureau estimate was made in 1904 and the present time. The item of mortgages at $3,704,648,900 is in my opinion based upon six years experience in dealing with the collection of mortgage taxes, an underestimate of this class of property. It appears from the report that this amount was arrived at by taking the amount of mortgages upon which a recording tax was paid last year, $740,929,780 and multiplying it by an assumed average life for mortgages of five years. This method is erroneous in that it considers the full amount to be outstanding for the full life period, whereas, commencing at the end of the first year, one-fifth is being paid off annually, however, the amount paid in mortgage recording taxes from July 1, 1906, to July 1, 1912, a period of six years, was $23,415,470.90, or an average annual tax of $3,902,578.48. This represents a 5 mill tax (the rate of taxation) on $780,515,696. At least two-thirds of this amount is represented by Corporate Trust mortgages.
having a general life period of from twenty to fifty years, with an occasional one having a life period of one hundred years, and about one-third of the amount is represented by individual mortgages and mortgages of corporations, not in trust, with an average life period of probably about five years. Mr. Ralph E. Thompson, mortgage tax clerk in the office of the state board of tax commissioners, who has had to do with the mortgage tax law since its enactment, has furnished me with information showing that for the year 1912, in the county of Westchester, more than two-thirds of all mortgages recorded were corporate trust mortgages. He has also furnished me with data indicating that the average life of individual mortgages is approximately five years and that of corporate trust mortgages upwards of thirty years. For the purpose of making a conservative estimate, I have taken the average amount of mortgages actually recorded at $750,000,000; and the average life of 15 years. This allows five years life for individual mortgages and twenty years for corporate trust mortgages. These allowances will I feel, offset any discrepancy in amount of mortgages, actually recorded, below the average taken, during any part of the fifteen year period prior to 1906. Basing the calculation upon this average amount and average life, and making due allowance for average annual payments, would show six billion dollars of mortgages outstanding at the present time. I believe this is a conservative estimate.

While I believe that the amount of outstanding bonds and credits as shown in this report at $1,852,324,450 and $1,800,000,000, respectively, is ultra-conservative, I shall use the figures presented, in the absence of better information, and shall also use the figures for tangible personal property, notwithstanding the omission of railroad equipment therefrom, and notwithstanding the increases therein which must have accrued during the nine years since the estimate was made. We then have this condition:

<table>
<thead>
<tr>
<th>Tangible personal property</th>
<th>$3,567,365,621</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mortgages</td>
<td>6,000,000,000</td>
</tr>
<tr>
<td>Bonds</td>
<td>1,852,324,450</td>
</tr>
<tr>
<td>Credits, etc.</td>
<td>1,500,000,000</td>
</tr>
<tr>
<td><strong>Total personal property</strong></td>
<td><strong>$13,219,690,071</strong></td>
</tr>
</tbody>
</table>
Deduct from this amount of mortgages taxed annually... $750,000,000

Amount of mortgages held by trust companies and taxed as a part of its capital, surplus and undivided profits, and of mortgages held by savings banks and taxed as a part of its surplus and undivided earnings, in so far as they enter into the same... $1,850,000,000

Amount of personal property assessed... 447,488,727

Amount secured debts taxed... 282,313,520

$3,329,802,247

Deducting this amount from the total of personal property, leaves the amount of personal property in this state not taxed at all,—$9,889,887,824 and the actual value is even greater than this amount.

Now I don't know what you gentlemen may think, but I feel that this property should contribute something in the way of taxes, and relieve in a measure the excessive burdens upon real estate.

We may concede the argument of those who favor the exemption of personal property from taxation, that our present method of taxing it, on the same basis as real property, is inadequate and has broken down as a system; that it works injustice and inequality; that the owners of such property, and particularly of credits, evade taxation, and that the tax is shifted by the person taxed to other shoulders than his own.

The charge that the owner of personal property taxed shifts the burden upon others is in part true, but the same conditions prevail in respect to taxes on real property to a very large extent, and neither can be wholly avoided. The public service corporations shift the taxes levied on real as well as personal property upon others, in the increased rates for services rendered and commodity furnished, and this is done under recognized authority of law. The manufacturer adds the taxes on real estate as well as personal property to the sales price of the manufactured article. The merchant increases the selling price of his merchandise to cover his real and personal property taxes. The landlord charges the taxes upon the real property to his tenant in the way of increased rent. In fact, about the only taxes upon real property which
are not shifted are those levied upon the homes in which the owner resides, upon the farmer who tills his farm, and upon real property not used for business purposes. If then the power to shift the tax is a logical reason for exempting personal property from taxation, it would follow that all real property should be exempt for the same reason in all cases where the tax can be shifted, and this would leave the entire burden of taxation to be placed upon the farm, homes and unproductive real property.

The laws imposing indirect taxes on personal property, alluded to in the report of the New York Tax Department and which I have discussed, may (and should in some instances), be amended, and a different rate of taxation may be imposed, but I apprehend that no one will seriously contend that they should or could be repealed and the property exempted from taxation.

Now if these classes of personal property are to continue to be taxed, as I believe they must, it would be an act of the greatest discrimination to exempt all other classes of personal property from taxation.

I shall briefly discuss the mortgage tax law and the secured debt law under their appropriate head.

The state tax commission called attention to the conditions respecting the taxation and escape from taxation of personal property in its report to the legislature in 1911, and suggested a remedy by a system under which personal property would be classified and taxed at fixed, reasonable rates, according to class. There is nothing radical or new about this proposal. It is simply an extension of an already existing policy which is working well in this state, and is in accord with the general trend of thought in other states. I believe it is the only practical solution of this question. Some remedy for the present injustice and inequality in the taxation of personal property must be found,—a remedy which will reach it for taxation and tax it upon an equitable basis. It is beside the question to say that this cannot be done when no reasonable effort has ever been made to accomplish it.

The report of the New York Tax Department, referring to taxes on personal property, under the heading "Who Would
Pay," enumerates,—"First of all the farmer * * * second, the manufacturers * * * third, the merchants * * * fourth, the householders * * * fifth, the investors in bonds, mortgages and notes.'"

Is it conceivable that this is a sound argument against taxing personal property? The only answer that I would care to make to such an argument is that if these owners have got the property they should be required to pay, and I would further answer that, as my observation goes, they are willing to pay a just tax if others, who should pay, are required to do likewise. I am not familiar with any good reason which should exempt a person from taxation because he happens to be engaged in any one of these enterprises providing he owns property liable to taxation.

Mortgage Tax Law.

The least that we can ask or recommend in respect of the mortgage tax law is that it be so amended as to be just and equitable as between individuals and corporations. As respects property the mortgage tax law is an exemption rather than a taxing law. It is a tax upon a privilege,—the right to record,—measured by the amount secured. Its imposition carries no obligation to record the mortgage. This is left entirely optional with the mortgagor; but recording usually follows as a matter of self-interest and protection. The rate of the recording tax is 50c on each $100 secured or major thereof,—the equivalent of five mills on the dollar. The present law became effective July 1, 1906, and superseded a law in force for one year preceding, known as the Mortgage Tax Law of 1905, which imposed an annual tax of five mills on each dollar secured by mortgage upon real property. The act of 1905 was a law taxing mortgages and the present law is a recording tax. Upon payment of the recording tax, under the present law, the mortgage and the debt secured thereby is exempted from taxation for all time. The mortgage running one year, or less, pays the same tax as the mortgage running fifty years or more. The holder of the individual mortgage with an average life of five years, pays this tax at the end of each five years period, when re-in-
vestment occurs, or ten times in fifty years as against one payment by the fifty year corporate trust mortgage, or four times in twenty years, which I have taken as the average life of corporate trust mortgages.

The exemption of mortgages from taxation should not extend for a period longer than five years, (the average life of the individual mortgage) and at the end of that period they should be required to pay a tax of five mills on each dollar outstanding, or be subject to taxation in some other form. Let us see what would be the result if we should impose this tax on unpaid amounts secured by mortgage at the end of each five year period.

The five year average life mortgage pays anyway on reinvestment a new recording tax.

The average amount secured by outstanding mortgages as I have estimated, is six billion dollars, and two-thirds of this amount, or four billion dollars, is represented by corporate trust mortgages having an average life of twenty years or more. At the end of each five year period the tax on this amount at five mills on each dollar would amount to twenty million dollars or an average for the five year period of four million dollars annually, and would be in addition to the initial recording tax collected. This would materially increase the state and local revenues; relieve the burdens upon real estate in a small measure and eliminate the present discrimination existing in favor of corporate trust mortgages against the holders of individual mortgages.

Secured Debt Law

The secured debt law imposes no tax, but extends a privilege to the owners of a certain class of bonds and other investment securities of paying a tax of one-half percentum on the face value thereof and secure complete exemption forever. The only inducement for a person to pay this tax is that he is being or is liable to be taxed thereon. So long as he is in no danger, there is no occasion to pay, but as soon as danger arises he is given, under this law, a safe haven of refuge to escape taxation for all time by the payment of a nominal amount. This isn’t taxation. It is exemption. This
report of the New York Tax Department, to which I have been referring, says: "Practically all the revenue under the secured debt law has been paid into the New York Office of the State Comptroller and presumably has been paid by residents of the City of New York." I have no reason to doubt this statement nor do I doubt that it has been a great boon and comfort to many wealthy men in that city to secure this relief from taxation at so small a cost. But what of the real estate owners in New York who are paying more than three and one-half times this amount of taxes annually and who must continue to do so probably for all time. Are they satisfied? Is it just to them? Will they submit to it? Can you keep piling the burdens of taxation upon them and relieve this class of property from taxation? These are questions which will sooner or later have to be answered and if I mistake not, the answer will be in the negative. We are told that this is a new source of revenue. I fail to follow the reasoning. I can see that it is a new resourceful exemption, but the source is always the same,—the ownership of these bonds and securities by taxable persons of the community. It may be true, as claimed that we have up to the present time, derived more revenue from these bonds and securities under this law than we would have obtained under the old law, but even if that is so, it does not establish that the law is right or justified, because, after all, the fundamental question is whether it fairly measures the amount of tax which this class of property should pay as compared with the amount paid by other property. I venture to say that, as a rule, the owners of these bonds and other securities are just as able to pay a reasonable tax thereon, as most of the owners of real estate, and I can conceive of no just reason why they should not be required to do so.

I do not believe that anyone will seriously contend that this law reaches more than a small fraction of the property which is, optionally, subject to its provisions,—a small fraction of the bonds and other investment securities subject to its provisions which are included in the estimate of over three billion six hundred million of bonds and credits exclusive of those secured by mortgages in the state, shown in the New York Tax Department Report.
One of the principal arguments advanced by the advocates of the present mortgage recording tax law as a reason for supplanting the annual mortgage tax law of 1905 was, that to exempt from taxation debts secured by mortgages upon real property in the state would encourage investments in this class of securities; would encourage dealings in real property; would encourage improvements thereon, and thereby enhance the wealth and general prosperity of the state. If we assume this argument to be sound, and as constituting sufficient reason for establishing a policy of the practical exemption from taxation of moneys invested in mortgage securities in this state, then the converse of the proposition would seem to hold good; that where moneys are invested in mortgages upon real property situated wholly without the state the exemption should not be granted, because, first, it does not tend to advance the prosperity of our state, but, on the contrary, tends in opposite direction and second it tends to withdraw moneys from the state for investment in foreign mortgages whenever a higher rate of return can be obtained. Now these investments in foreign mortgage securities are placed upon a par with, and receive the same advantage by way of exemption from taxation as do mortgage investments in this state. I believe this to be contrary to good state policy and a betrayal of the real estate interests in this state.

The tax under this law should be made an annual one,—not necessarily at the rate fixed, but at some rate which is deemed fair and just, and its payment made mandatory. And I would apply the same general treatment to all other forms of credits now taxable under the general property tax law, varying the administration features, where necessary to accomplish the result. Otherwise, the law should be repealed. This would require the owner to make out a list of these securities and credits owned by him, and file the same with the properly designated official who is to fix the tax, according to the rate prescribed by statute. I am aware that the cry will at once go up in opposition to a listing plan or requirement, that it is inquisitorial in character, but we have the system and have operated under it for years as affecting corporations made up of individuals, and will soon be pre-
paring lists under the federal income statute of the most inquisitorial nature.

It is an anomalous condition of our taxing system that we subject properties of varying character to taxation, and require our taxing officials to value them for taxation purposes and at the same time deprive those officials of the power to obtain information from practically the only source from which it can be obtained,—the owner. In reality there is no difference in principle between requiring an owner to furnish a list of his securities and credits, and in requiring him to furnish a statement of the true consideration paid for his real estate, which is now being advocated by many of those who oppose a listing of securities.

**Supervision of Assessments**

New York needs a proper system of supervision of assessment for taxation purposes, with power vested in the state tax commission to enforce the law respecting assessments, which requires that all property shall be assessed at full value.

There are only a few tax districts in the state where the assessors make any pretense of assessing property at full value, as required by law.

Under-assessment is the rule throughout the entire state, and in nearly all tax districts intentionally and purposely so. In most cases the assessors make their own law as to the basis of assessing property in deliberate violation of the statute, and then proceed to make oath to the assessment roll that they have assessed all property at its full value.

I shall not discuss the causes which give rise to the practice of under-assessment, suffice it to say that the principal cause is our system of equalization by boards of supervisors of the county, and to add that I do not place the blame wholly upon the assessing officers, who, as a rule, are intelligent, upright and honorable citizens, but who are prompted in their action by a desire to serve their particular tax district, which they believe can best be done by under-assessment, and this is too often the case.

As a direct result of this haphazard method of assessment,—this practice of under-valuation at varying rates, coupled
with the failure properly equalize assessments, there exists in this state great inequality in the burdens of taxation among tax payers. I need not further discuss these conditions, because the facts are known and recognized by all students of New York's tax problems.

We cannot hope for any substantial betterment in respect of these conditions until we make it the duty of some central authority to supervise assessments, and give to that central authority the power to enforce the law. This power and duty should be vested in the state board of tax commissioners, and, as an aid, I would establish a system of county supervision. Each county should have a supervisor of taxes, appointed by the state board, upon competitive examination, who would be under the direction of, and answerable to that board, and be removable by it for cause. The duty of these officers should be prescribed by statute and the state board, and include the investigation of methods of assessment, the basis of assessment in every tax district of the county, the gathering, preserving and reporting statistical information as to the value of properties and the assessed value thereof, the giving of aid and advice to assessors in the various tax districts (without interfering with the prerogatives of their office), so as to better enable them to discharge their duties as respects the proper form of assessments, and in arriving at the values of property with which they are not familiar. The state board should be given the power to set aside an entire assessment roll and order a re-assessment, where it shall appear that the assessors have failed in assessing property as the law requires. This power would rarely have to be exercised, because the existence of the power and the knowledge that it would be exercised if necessary, would usually have the desired effect of securing compliance with the law on the part of assessing officers.

**Miscellaneous**

The time allotted to a paper of this kind upon the needs of a great state can only permit of brief reference to, and discussion of a few of the more important ones. I shall only call attention to a few others and make no attempt to discuss them at length.
Tax Maps

We need tax maps for each city, town and village which will show each separately owned parcel of real estate therein subject to taxation and exempted from taxation with its quantity, and which will also show the boundaries of each subordinate taxing district therein,—such as school districts, lighting districts, etc, and the separately owned parcels of real property subject to taxation within each of the subordinate districts. Each parcel to have an identifying number and making a reference in the assessment roll to the parcel by number a sufficient identification and description thereof for the purpose of a valid assessment against it.

This we need to secure accuracy of assessment.

Revision of Exemptions

We need a careful and just revision of our exemption list as respects both real and personal property. The amount of personal exemptions is not known, but it is known that the amount is enormous, and it is the general belief that a substantial amount of this should be taxed. The real estate exemptions in 1912 amounted to $2,063,584,827, or more than one-sixth of the total valuation of real estate, an increase in five years of $416,400,331, as shown by the report of the state commission of 1913, or an increase at the rate of over $83,-000,000 annually. This increase may or may not be real as to the full amount, because it may represent an added value to property already exempt before that period; but the conditions warrant the demand for revision.

Tax Levies and Collections

We need a revision of our system of levying and collecting taxes so that all taxes for each town, city and village, including each and all subordinate tax districts therein, shall be levied at one time for all needed purposes during the fiscal year, and so that each person and corporation taxable therein can pay all his or its taxes for the year to one collector, either at one time or in not more than two installments, as may be provided, and these taxes should be based upon one assessment made for all purposes.
NEW YORK'S NEEDS

It is costing too much money and the loss of too much time, which is the equivalent of money, to pay and collect our taxes and the loss in taxes is much greater under our plan of segregation than would be the case if they could all be paid at one time and to one collector for the entire tax district.

I know that there are thousands of instances in this state where it costs more to pay the taxes than the taxes amount to, and thousands of cases where it costs more to collect the taxes than the sum collected. This is particularly true of public service corporations operating in many tax districts and is measurably true as respects taxpayers who are non-residents of the tax districts. As respects public service corporations, this increased cost of paying taxes is charged as an operating expense, and, in the final analysis, is borne by the people, and they should have as much interest as the corporation in keeping the cost as low as possible. I shall not attempt at this time to present a plan to accomplish my suggestion, but I feel that we should work out the problem and ultimately accomplish the desired result.

Lastly, but of first importance, New York needs a governor who will take an active interest in her tax matters, who will study the problems and conditions and give his thought and active attention to their solution, and who will, after mature consideration, put the force, the power and prestige of his great office back of a movement to correct the injustices which are being done and secure and give to the people of the state an equitable and just distribution of tax burdens according to ability to pay. In making this statement I do not intend to cast any reflection upon, or imply any criticism of the present governor or any of his predecessors; but these matters are of pressing and vital importance, affecting the general welfare of the people of the state, and they can be more easily and quickly solved by the active and interested co-operation of the executive.
SOME PROBLEMS OF CORPORATE TAXATION IN NEW YORK STATE

Randall J. LeBoeuf

Former Justice of the Supreme Court, Albany, N. Y.

The public service corporation to-day in its special franchise taxation presents several problems of which, with one general problem, I can only treat in the time allotted for this paper. The subject of a multitude of tax exactions—it forms probably the most important element in all corporate taxation.

The importance of the corporation generally may be judged from the following tabulations prepared by Mr. John J. Merrill, of the State Comptroller's office, an acknowledged tax expert.

The assessed valuation of all corporate property in New York State in 1912, was $1,273,501,393

The total assessed valuation of all property in 1912, was $11,022,985,914

A comparative statement of corporation taxes levied through the comptroller's office of the state in 1912 and 1913, not including special franchise tax and direct ad valorem tax, shows:

<table>
<thead>
<tr>
<th>Capital Stock Tax</th>
<th>1913</th>
<th>1912</th>
</tr>
</thead>
<tbody>
<tr>
<td>Miscellaneous</td>
<td>$1,717,160.77</td>
<td>$1,480,219.81</td>
</tr>
<tr>
<td>Telegraph and telephone</td>
<td>367,069.65</td>
<td>349,132.18</td>
</tr>
<tr>
<td>Transportation</td>
<td>1,096,385.46</td>
<td>1,006,498.53</td>
</tr>
</tbody>
</table>

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The public service corporation in the direct taxes on capital and earnings:

In 1912 paid—
   Capital stock tax  $1,355,630.71
   Gross earnings tax  2,504,666.66
                      $3,860,297.37

In 1913 it paid—
   Capital stock tax  $1,463,455.11
   Gross earnings tax  2,638,043.02
                      $4,101,498.13

**New York Public Service Corporations before and since the Passage of the Public Service Commissions Law.**

A fair consideration of these figures warrants a comparison of the public service corporation before the days of public service commissions, and the same creature of the state to-day.

In the old days public service stocks were often watered, franchises given a fictitious value for capital issue, unfair burdens were frequently imposed upon the public; railroad commissions had only the power to recommend replacement of inadequate appliances and plant, and no prompt redress existed for inadequate service or unreasonable rates. It was but natural that popular prejudice should be especially aroused against this form of corporate activity and that retaliation in the form of heavy taxation resulted.
There is a vast difference, however, between that corporation and the revised and regulated version of the same corporation to-day.

The issue and application of the proceeds of all capital securities is under stringent control. Franchises though specially taxed are not the subject of capitalization beyond their actual cost. Franchises may not be exercised, transferred or leased without the consent of commissions. No plant construction or extension can be commenced without like consent. On the other hand, the maintenance of safe and adequate plant, appliances and service can be promptly compelled. Rates and tariffs must be filed, their reasonableness may be readily questioned and their change compelled. Even their accounts must be kept in a manner required by commissions, and they may be directed to write off values upon theories of depreciation and obsolescence determined by such commissions.

The reason heretofore given for imposing special tax exactions upon public service corporations was, primarily, that receiving special favors from the state, they were carrying on their business with a high hand. That theoretically under the control of the state practically the control could not be exercised. It was claimed that special privileges and unreasonable exactions, producing exaggerated values, warranted the imposition of taxes which would give the state and the public a return upon these values. When, however, the state worked out a practical method of exercising its theoretical right to control these corporations, it provided a means for limiting most of the abuses of special privilege and, indeed, has made these corporations quasi-public servants.

The Special Franchise Tax

While the problem of public service control was being worked out in a scientific manner, no effort was made to recognize this changed condition in amendments to the most drastic of tax laws, the special franchise tax law, which continues to-day as since its passage in 1899, to be shrouded in doubt and uncertainty, both as to subject matter and assessment.
Under this law, rights in streets, highways and public places with the tangible property used therein, became assessable as the special franchise of the corporation.

The legislature in its wisdom determined that local assessors, subject to political change, lacking technical knowledge of the subject matter involved, had sufficient ability to determine, and required them to assess at full value, the real and personal property of public service corporations, outside of the streets, highways and public places, for all purposes of local, county and state taxation. That full value was to be ascertained by determining the cost of reproducing the property in the condition in which it was then found, taking into consideration whether the property was a paying enterprise. It therefore became incumbent upon the local assessor to have a knowledge of the whole property.

On the other hand, the legislature as gravely determined that only a state commission was competent to go throughout the state, pick out the disjointed sections of tangible property in public streets, highways and public places, determine the tangible values of the whole of the corporation, ascertain in some occult manner the value of the intangible franchises, and direct the local assessors to enter that assessment, in addition to the assessment of the tangible property by them made, upon the assessment rolls for all municipal, state and county purposes.

There could be but one result, wholesale confusion.

The state tax commission was staggered by the thousands of assessments that it was called upon to make. No definite rule had been laid down in the statute for the valuation of these intangible rights, and for a while the enforcement of the law appeared to be an utter failure from every point of view.

Courts overburdened with this mass of litigation, with some irritation asserted that many of the returns were not proper returns. The final result was that the Supreme Court, under the peculiar phrasing of the tax law, had imposed upon it the duty in a large number of cases, of re-assessing the tax. Court calendars became clogged with tax cases, and finally terms had to be set aside for the purpose of disposing of them.
The impropiety of such a condition was plain. A tax law ought to be so clear and definite that courts should not be called upon to do the work of administrative bodies of the state. If they are called upon in exceptional cases, the tax law should be so constructed, that, subject to the pronouncement of the court as to some particular rule of assessment or apportionment, the final assessment should be made by the administrative body.

The Net Earnings Rule

How should, however, this new subject of taxation be valued?

Delving deep into the mysteries of expert opinion, the Court of Appeals in the Jamaica Water Supply case, finally promulgated a net earnings rule, not as the only rule, but as one there, and in many other cases, applicable. This rule was thereafter said to be generally applied by the tax commission.

It thereupon became the duty of the state tax commission where such a rule was applied to know every fact as to value, which a local assessor was called upon to know, but which, of course, he seldom does know. It was its duty to know the value of the tangibles, both outside and inside of the highways and public places, subject to special franchise assessment.

But new problems presented themselves.

If the property were all located in one tax district, less difficulty was experienced in making the assessment than if it were located in many tax districts, where the difficulties were multiplied. To this difficulty was added a special problem with reference to crossings. One class of these was subject to local assessment as tangible property alone; another in cities and incorporated villages, and some others were to be assessed both as tangible property and intangible rights by the state commission. That body undertook to classify all crossings on a somewhat different basis than lateral highway occupation.

The net-earnings rule was said to be applied outside of crossings in the large majority of these assessments. The classification rule was said to apply for crossings including
a consideration of whether the venture was paying or not, in determining the tangible and intangible values constituting the crossing. The result, however, was an assessment of practically every corporation, whether dividend or non-dividend paying, in some amount for intangible value. As net earnings determine a paying venture and should result in some dividends upon capital stock, it is difficult to reconcile this claim with the following data obtained as to corporations reporting in 1912 to the Second District Public Service Commission alone, where the non-dividend corporations had a capitalization of nearly $500,000,000.

<table>
<thead>
<tr>
<th>CLASSIFICATION</th>
<th>Number paying dividends</th>
<th>Number not paying dividends</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electric railroads</td>
<td>66</td>
<td>18</td>
</tr>
<tr>
<td>Steam railroads</td>
<td>73</td>
<td>27</td>
</tr>
<tr>
<td>Electrical corporations</td>
<td>169</td>
<td>52</td>
</tr>
<tr>
<td>Gas corporations</td>
<td>29</td>
<td>8</td>
</tr>
<tr>
<td>Electrical and gas corporations</td>
<td>45</td>
<td>22</td>
</tr>
<tr>
<td>Natural gas corporations</td>
<td>48</td>
<td>24</td>
</tr>
<tr>
<td>Electric railroads and electric gas</td>
<td>7</td>
<td>3</td>
</tr>
<tr>
<td>Telephone corporations</td>
<td>132</td>
<td>38</td>
</tr>
<tr>
<td>Telegraph corporations</td>
<td>4</td>
<td>2</td>
</tr>
</tbody>
</table>

The steam railroads then claimed their crossings were not special franchises. It took years to determine this question adversely, and procure the holding, however, that crossings at new streets over existing railroads were not assessable as special franchises. From 1900 to 1912 was taken to determine that an assessment on the 4th avenue section of the New York Central railroad was a special franchise, though the avenue was not laid out till after the railroad was built, municipal consent being necessary to lay out the road.

If it took twelve years to work out this problem, one can fairly appreciate the uncertainty of mind of both local assessors and the state tax commission as to what was property within the purview of these diverse assessing authorities. This uncertainty of taxing officers entailed, however, one certainty. Both sets of assessing bodies claimed the right to and did assess the property, adding measurably to the peace
of mind of the corporation and the fees of counsel learned in the law.

It took years of litigation to determine that one set of McAdoo tunnels under the Hudson river was a special franchise, while the other set was not assessable by local assessors.

Despite many decisions the difficulties of apportionment grow, and call for expert testimony, after examining which courts appear to take refuge with relief in the rule that imposes the burden on relator to show these expert guesses erroneous.

**Lack of Harmony Between Public Service and State Tax Commission as to Depreciation and Obsolescence**

Nor does the net-earnings rule once established, relieve us from the consideration of many problems. One of these, allowance for depreciation, brings to light a lack of harmony between two administrative departments of the state. These the state tax and public service commissions are examining into the same facts, collecting similar data as to public service corporations and reaching radically different conclusions.

In the Jamacia Water Supply case the Court of Appeals allowed charges off for depreciation.

Whereupon came great strife between the state tax commission, the municipal corporations affected, and the corporations, in a determination of what was properly to be set apart for depreciation.

It was asserted in some litigation that while depreciation might be figured on the life of plant and appliances, depreciation known as obsolescence was never capable of being figured, and ought never be allowed.

The courts in deciding that "there is a difficulty in making any estimate in the amount of depreciation in the assessable value of tangible property which may result from future inventions" cannot be deemed to have decided against the allowance of ascertainable obsolescence.

The records of conventions of engineers and accountants indicate that there are many forms of obsolescence beyond ordinary depreciation which can be foretold, and for which
provision should be made in advance. The life of plant and appliances might easily extend long beyond the time, when, judged by such standards, it would become inadequate to carry a service whose future demands could be in some measure foretold from past experience.

It is within the power of Public Service Commissions to compel such inadequacy to be avoided by replacements and additions. It would be the height of folly for a well-managed corporation not to begin to lay aside sufficient funds, to, at some future date, replace such plant and equipment, which the increased demands upon the service and the state itself will require.

Under the public service laws, when such expenditure is made, the whole of it will not be allowed as an addition to capital account, but a large part of it goes into the replacement expense. It would be most unwise for a corporation to wait until the year when such expenditure is to be made, and then charge the whole expense of the replacement item, over accrued depreciation, to its maintenance or replacement for the year.

The public service commission, specially authorized by statute to make these very requirements, has recognized this condition. For that purpose it has provided in its uniform system of accounts for an accrual for obsolescence beyond ordinary depreciation. That amount so to be accrued is to be ascertained by a rule determined by the corporation "derived from a consideration of said company's history and experience during the preceding five years."

It is to be based upon a sworn statement of facts and expert opinions.

Under these circumstances, a corporation that does as a matter of fact, charge off from its earnings a reasonable amount so required by the public service commission to be charged off, or in good faith in excess of such state requirements, should, in the future, be fairly allowed that deduction from its gross earnings, and as much more as a fair consideration of its plant and property would show could be reasonably ascertained for obsolescence, capable of being with some accuracy foretold.
Equalization

One further problem merits discussion—equalization.

The local assessors are required by law to assess tangible property at its full value. Indeed, it is made the duty of the tax commission "to inquire into the methods of assessment and taxation, and ascertain whether the assessors faithfully discharged their duties, and particularly as to their compliance with the provisions of this chapter (the Tax Law), requiring the assessment of all property not exempt from taxation, at its full value."

When the state tax commission, in the performance of its duties had assessed tangible and intangible property at full value, that full value assessment was immediately attacked in the courts because of lack of uniformity with local assessments. In that way an illegal practice which had grown up in almost every taxing district in the state, of assessing land not at full value, but at some percentage of that value, was recognized and condoned.

Thousands of writs of certiorari to procure so-called uniformity were sued out by relators otherwise content with their special franchise assessments. It was a dilemma. The practice was well seated, and the courts held that while the state tax commission had not power to make this reduction, a justice of the Supreme Court at special term, had, and should exercise the power. This unpleasant task has now been removed from the courts to another governmental authority. It is, however, simply a method of whipping the devil around the stump. The spectacle of a board whose duty it is to compel local assessment at full value reducing its own legal assessment to the percentage illegally made by local assessors does not beget respect for the tax law in taxpayers.

Conclusions as to Special Franchise Tax

These are but a few of the problems attending the imposition of this tax.

It is submitted that they tend to show the unwisdom of separate and piecemeal assessment, that they disclose a lack of certainty in the subject matter, in the amount of assess-
ment, and indeed, in many cases, a lack of propriety in the making of any assessment upon intangible property, warranting serious consideration of a change.

A remedy is suggested by thoughtful minds which is worthy of consideration.

This remedy is the taxation of all public service corporations upon the basis of their gross earnings alone, and the elimination of all other forms of taxation, other than federal.

In the state of the public mind to-day, however, there seems to be little likelihood of carrying out any such plan. Two things may, however, be suggested as economic changes disregarding present statute and fundamental law:

First. The assessment of public service corporations' real property, including franchises, should be made by a single authority, having power to assess the whole of the tangible and intangible property of corporations, whether in one or several tax districts, with power to apportion such assessment among the several districts, and require of local assessors only the ministerial act of placing the assessment when apportioned upon their rolls for all tax levy purposes.

Second. Inasmuch as the state to-day is in the position to promptly regulate capitalization, rates and the service, of all such corporations, and obtains from them by the gross returns tax and other taxes, compensation, in part at least, for these special franchises which they enjoy, no special franchise tax whatever should be paid upon intangible values, unless the corporation assessed is actually procuring a reasonable return either upon its issued capital stock, or if that be deemed too favorable, upon its property necessarily employed in carrying on the public service for which it is organized.

It is already the duty of the state board in assessing special franchises, especially where the net earnings rule is applied, to know the value of the whole tangible property of such corporations in order that it may figure a fair return upon that property, and deducting that amount, ascertain the net returns from which the intangible value is to be determined.

It is already the duty of the state board of tax commissioners to see to it that local assessors are actually performing their duty in assessing land at full value.
In performing both of these duties, they would necessarily become thoroughly acquainted with the tangible property of such corporations throughout the state, and if their powers or their working staff are insufficient for the work, they should be reasonably increased.

One question will be left, the same bugbear of equalization. While it has a practical, it has no legitimate place in any theory.

If a state commission were making the entire assessment upon this large class of assessable property throughout the state, the same force, which would be utilized in ascertaining such value, would be performing the duty now imposed on it of compelling the assessment of other land at full value by the local assessors.

Public service corporations might well afford, during a transition period, to stand a loss incident to lack of uniformity in such assessments, in order to obtain the final reduction upon their rates, which would necessarily result from a compulsory assessment, by local assessors, of other lands at their full value.

The Real Problem in Corporate Taxation

This to-day is not, what shall be the subject matter of corporate taxation, nor how the tax once levied shall be collected, but rather, how shall the millions of dollars annually paid by corporations to the state be expended?

I do not find in looking over your proceedings that many papers deal with this subject, and I do not intend to discuss it as a matter of politics, but rather as a matter of government.

An examination of the situation in New York State to-day, in every other state of the Union, and under our national laws, discloses that the slogan of government towards public service corporations is efficiency.

Efficiency is demanded of the railroads by the Interstate Commerce Commission; adequate and safe service and efficient management by state commissions. Great men have arisen in the land, whom the solons at Washington submit are able to advise railroad directors and industries of long
standing as to how their properties shall be effectively run, and they enforce this expert opinion by stringent regulation and control.

The demand for efficiency produced the Interstate Commerce Commission and our public service commissions.

The manufacturer who operates his factory without keeping a careful account of cost is on the high road to bankruptcy. The railroad or other public service corporation which does not carefully investigate duplication and waste in reduction of operating expense is well on the road toward the junk pile.

Demand from all sides in public service corporations today, both from governmental experts and from boards of directors, is not alone to see the gross increase, but to see the red figures—the decrease in the operating expense.

Is it not a fair proposition that the corporations which pay a great part of the running expenses of a great state's government, should turn to that state and insist on efficiency in the expenditure of that money?

Is it not quite as important for the corporations and for the taxpayers at large, outside of corporations, to require the same degree of efficiency in the employment of those funds, as in the concerns of the corporations themselves which have become now quasi public agents?

It is respectfully submitted, that if the effort were made by associations, such as yours, to put the government of your state upon a genuine business basis, the red figures would begin to appear in its operating expenses as they appear upon intelligently managed corporations' balance sheets.

On every side, apart from political and factional criticism, is the charge made, that, with the multiplication of departments, there has come a duplication of reports, accounts and effort, an army of obsolescent employees, involving a great economic waste; that nowhere has there been made even a fair attempt to scheme out the whole government of the state from the standpoint of a great corporation, having many departments, each of which dovetails into the other and makes one effective machine. I use this term not in its present unpopular sense.
It is commonly charged that the state has not received the same treatment as individuals, from contractors in the carrying out of the work on its highways and public works. This is claimed to be due, in large measure, to the lack of skill with which departments themselves are put together, and because of much red tape incident to friction and an overlapping of authority between different departments and officers.

Mark Twain's great beef contract is being re-enacted to-day in our ponderous state machinery, if the public prints are to be believed.

Special commissions are appointed to revise the laws affecting banking, insurance, taxation, highways and other departments of state activity. These commissions, however, look only to the economic and legal questions affecting their own departments, and there can be but little progress made through them beyond the matters to them submitted. Many of the departments themselves are making serious efforts to effect a change, but these cannot go beyond their own jurisdiction, and, it is hardly to be expected that they would, willingly, give up even overlapping authority, if they could.

The desired efficiency cannot be obtained by legislatures having constant demand made upon them to produce changes in the statute law, nor from executives having need now, almost the year around, to observe the movements of legislatures, in the change of laws, and the duty of enforcing them.

It is respectfully submitted that it could in some measure be obtained, in New York State, from the periodic appointment of a non-partisan efficiency council of experts in governmental affairs. Such a body would attract the best brains of the country. It would ascertain the needs and the cost of operating the various activities of the state, uncover duplication and overlapping of effort and powers, examine into the sources of the revenue of the state, and the propriety of revision of such sources of revenue, expose the swarm of employees unnecessarily employed because of the demands of patronage, and suggest to the legislature, to which its report would be made, a re-adjustment of the state's affairs, and a genuine business system brought up to the standards of effi-
ciency now demanded of great enterprises. It may be fairly asserted that the recommendation of such a commission enacted into law, would radically reduce the rate of taxation in this state.

There never was a more opportune time to make such a demand.

Public servants are now clamoring for a high moral plane in public action, and the taxpayer may, in this atmosphere, hope to have fair consideration of a demand, not for ethical, but efficient, government.

If taxpayers do not require such efficiency in the use of their money, we need not be surprised that, in the constant shifting of political responsibility, extravagance, sloth and waste will be fairly chargeable to their laxity and indifference.
SUPERVISORS OF ASSESSMENT AND THE DANIELS DECISION

Thomas E. Lyons
State Tax Commissioner, Madison, Wis.

It is a trite observation that good assessment lies at the foundation of any proper administration of the property tax. It is equally true that all attempts to secure good assessment have met with indifferent success. Constant efforts of supervising officers have undoubtedly brought about some improvement in this respect, but we are still far from the goal of either equitable or scientific assessment. The chief obstacles encountered have been the incompetency of local assessors and the demoralizing effect of local influence. Until within the last two years the experience of Wisconsin in this respect was not different from that of other states, but we venture to hope that a forward step has been taken, and I have been requested to present the efforts made and to describe methods employed to solve the problem, under the rather enigmatical title of "Supervisors of Assessment and The Daniels Decision."

Since the organization of Wisconsin as a state, and even during its territorial days, the work of assessment was committed to local officers selected by the people of their respective districts. With few exceptions the result was haphazard selection and very indifferent assessments. The first serious effort to remedy the situation was made by the legislature of 1901 in creating the office of county supervisor of assessments. This officer was selected by the county board composed of one member from each town and village and one from each ward of incorporated cities, chosen by popular election. His duty was to inspect and supervise the work
of local assessors, report the result of his observations to the tax commission and the county board and recommend a basis for the equalization of county taxes. Thus far his power was advisory only, with no authority to enforce his instructions.

The office of supervisor of assessment was created soon after the establishment of a permanent tax commission, and for a time their joint efforts resulted in a noticeable improvement in assessment conditions. The laws governing the powers and duties of local assessors were compiled in convenient form for the use of assessors, a systematic campaign of instruction was conducted through correspondence and personal interview, and a much better understanding of the laws governing taxation was secured. The statutory requirement of full-value assessment was strongly emphasized and local assessments throughout the state materially increased during the two succeeding years. The impetus thus gained was short-lived, however. The inertia of local communities and the pressure of local interest soon began to tell on the weaker assessors, particularly in respect to full value assessment, and the ground which had been gained in this respect was soon lost. The auspicious response to the efforts of the tax commission and supervisor of assessment when first appointed soon gave way to indifference or opposition, and the ratio of assessed to true value gradually sank back to its old-time level. It was apparent, therefore, that the benefits expected to flow from the creation of that office were not to be realized unless the officer should be clothed with additional powers.

In 1905 an act was passed authorizing the reassessment of the entire property of any town, city or village by the tax commission, at the expense of the delinquent district, whenever it appeared that the original assessment had not been made in compliance with law and that public interest required a reassessment. As originally enacted the law impliedly required complaint to be made by an interested taxpayer, but by an amendment of 1913 the tax commission was authorized to order reassessments on its own motion.
Under this law the tax commission is authorized to appoint the persons to make the reassessment and a board of review to correct the same, and fix their compensation. The persons so appointed are vested with the powers and made subject to the duties of the regular assessor. Receiving their appointment from state authority and being generally chosen from outside of the district in which they are to serve, they are wholly independent of local influence and have no inducement to violate law. As a rule they perform their duties with admirable faithfulness and intelligence.

The validity of the reassessment act was early questioned and the attorney general advised that the law was unconstitutional—a conviction which two members of the commission shared. The law being new and of doubtful validity, the number of applications received thereunder was limited and were considered by the commission with caution and granted with hesitation. The power conferred by the act was exercised in a few cases, but increasing doubt as to its validity made plain that it could not be effectively used until passed upon by the courts. In 1910 an application was received from the town of Iron River in Bayfield county, presenting a flagrant case of discrimination and irregularity, and it was decided to order a reassessment in that case, in the expectation that it would result in a test of the law. A reassessment was accordingly ordered and actually made, but the town clerk refused to recognize the result and set out to compute the tax on the original assessment. Thereupon an action of mandamus was brought to compel the clerk to extend the reassessment figures on the roll and to compute the annual tax thereon. The action was tried in the circuit court of Bayfield county and resulted in a judgment sustaining the reassessment and directing the clerk to compute the tax accordingly. The case was thereupon appealed to the supreme court of the state, where it was argued and decided in November, 1911. The report will be found under the title of State ex rel. Hussey v. Daniels, 143 Wis., 649.

The only question involved on the appeal or argued before the court was the constitutionality of the reassessment act
under the home-rule clause of the Wisconsin constitution. So far as material that provision reads as follows:

"All city, town and village officers whose election or appointment is not provided for by this constitution shall be elected by the electors of said cities, towns and villages or of some subdivision thereof or appointed by such authorities thereof as the legislature shall designate for that purpose. All other officers whose election or appointment is not provided for by this constitution and all officers whose office may hereafter be created by law shall be elected by the people or appointed as the legislature may direct."

This provision had previously been considered by the Wisconsin supreme court and construed in accordance with the New York decision, as the following extract from the case of State ex rel. Gubbins v. Anson, 132 Wis., 461, clearly shows. The court said:

"This section of our constitution was taken substantially verbatim from the constitution of 1846 of New York. It had received no authoritative construction by the ultimate court of that state prior to its adoption here in 1848; but before serious question arose in this state upon it, it had received exhaustive discussion and construction in the opinion of Denio J. in People ex rel. White v. Draper, 15 New York, 532, both the reasoning and decision in which were almost at once accepted and approved by this court."

This circumstance is material, as the attack upon the law was chiefly based upon the authority of the New York decisions. The case was elaborately briefed and fully argued by eminent counsel. The New York cases applying the law under a great variety of circumstances, from People v. Draper, decided in 1857, to the special franchise tax case, decided in 1910, were discussed and considered. Special emphasis was placed upon the decision in the case of People v. Raymond (37 New York, 428) decided by the New York court of appeals in 1868, where an act creating the office of a commissioner of taxes for the city of New York and providing for his appointment by the governor of the state was held to be in violation of the home-rule clause of the New
York constitution. Nevertheless the Wisconsin court sustained the act and denied that it was in conflict with the constitution or public policy of the state. The court proceeded on the broad general principle that every presumption must be indulged in favor of the constitutionality of a law passed by the legislative branch of the government and that it should not be declared unconstitutional unless its repugnance to the constitution was clear beyond reasonable doubt; that the legislature had plenary power over the whole subject of taxation within constitutional limitations and that in the exercise of its sovereign power it is not only the right but the duty of the state to see that its laws are equally and fairly administered; that persons appointed under the reassessment act were not officers, but mere agents employed to perform a specific function, and that therefore the reassessment act did not deprive communities of the privilege of electing their local officers nor interfere with the right of local government.

The decision declared a wise public policy, established an important administrative principle and furnished a valuable legal precedent. Since it was handed down the powers conferred by the reassessment act have been frequently exercised and constitute the strongest weapon in the arsenal of tax administration.

The right of local self-government came down to us from Magna Charta through the colonial period and the New England town meetings, and the principle has been either expressly or impliedly embodied in the constitution of most of the American states. In the language of Judge Vann:

"The object of the people in enacting these provisions was to prevent centralization of power in the state and to continue, preserve and expand local self-government."

The purpose was praiseworthy and the principle has proved salutary. The right which it guarantees should be and has been jealously guarded wherever attempt has been made to interfere with the vital and inseparable functions of local office as defined and understood at the time of the adoption of the constitution. Wherever legislatures have attempted to encroach upon it their action has been con-
denied. To that extent it has been and must be preserved. But the home-rule provision was not intended to and does not protect incompetency, lawlessness or favoritism in taxation. It was adopted as a shield and should not be converted into a sword for this purpose.

Bearing in mind that the entire taxing power is vested in the legislature and that not a dollar of revenue can be raised for local or general purposes except by its authority; that the health, safety, education and civic welfare of the community and even the sovereignty of the state, are in large measure dependent upon its proper exercise, the importance of preserving that power intact and properly subordinating other constitutional provisions readily appears.

This distinction has been recognized by the courts in condemning legislation which sought to deprive the people of the right to select their local representatives or divest them of their essential functions, and in sustaining legislation of a purely corrective or remedial character, designed to secure more efficient administration in the interests of the people as a whole. Thus the supreme court of Wisconsin applied the home-rule provision in the case of the selection of a chief of police in the city of Fond du Lac (O’Connor v. Fond du Lac, 109 Wis., 253), but denied its application to the appointment of a supervisor of assessment in the same county (State v. Samulson, 131 Wis., 499). It applied the rule to a statute extending the term of the city attorney of Milwaukee (State v. Krez, 88 Wis., 135), and denied its application to an act authorizing the circuit court to appoint commissioners for the equalization of county taxes (State v. Meyers, 52 Wis., 628: State v. Horn, 112 Wis., 81). It upheld an act providing that whenever the people of a given municipality should fail to elect regular officers that the duties thereof might be performed by the officers of adjoining towns (Strange v. Oconto Lbr. Co., 136 Wis., 516), and a law authorizing the circuit court to appoint jury commissioners. In common with the courts of many other states (State v. Anson, 132 Wis., 461), it upheld an act for the assessment of the property of steam and street railways and other public utilities by state au-
authority (C. & N. W. Ry. Co. v. State, 128 Wis., 553), including tangible property distributed throughout the various districts of the state, notwithstanding that such property has been previously assessed by local officers. The decision in the New York special franchise case is to the same effect. (People v. Tax Commissioners, 174 N. Y., 417). The courts have repeatedly sustained laws consolidating the territory of several municipalities for police protection, drainage purposes, control of highways and sanitation, and laws transferring certain functions of local officers to commissions appointed by the executive department of the state. In all of these cases the right of the community to elect purely local officers for the performance of exclusively local functions has been recognized; but the counter right of the larger community of the state to preserve its rights, enforce its will and promote the welfare of the people as a whole has been equally recognized and upheld.

The only decision apparently adverse to the validity of the reassessment act which the industry of counsel in the Daniels case was able to cite was the New York decision in the case of People v. Raymond before referred to. But the distinction between that and the Daniels case is clear and obvious. In the former the statute purported to permanently displace the local assessor and supersede him by an officer appointed by the governor, thus permanently depriving the people of the city of New York of the right to select their local assessor. In the Daniels case the people did elect their assessor, and after his manner he undertook to assess the property of the district. Finding that his performance of the duty imposed upon him was unlawful, and discriminatory, the state intervened to correct the error. The assessor was not disturbed in his office, the people were not deprived of their right to elect him, his term continued and the only thing done by authority of the state was to correct his unlawful conduct.

The case of Ex-parte Corliss decided by the supreme court of North Dakota in 1907 must also be recognized as authority against our contention. While the question presented did not relate to taxation, it involved the home-rule principle. The
law attacked in that case provided for the appointment of an enforcement commissioner by the governor to assist district attorneys in the enforcement of criminal law and especially the anti-liquor laws. Whenever the regularly constituted authorities failed to enforce these laws in their respective counties the statute gave the enforcement officer the right to institute and conduct prosecutions on his own motion. While there is no express home-rule provision in the North Dakota constitution it was argued that the principle was implied, and a majority of the court accepted that view and held the act invalid. In sustaining the jury commission case Judge Dodge of the Wisconsin supreme court aptly remarked that the home-rule clause of the constitution had been "the subject of much discussion and more declaration." With all due respect to the supreme court of North Dakota, I venture to suggest that it lost sight of this distinction and gave undue weight to obiter expressions in decisions to which the rule was properly applicable, and the strong dissenting opinion of Judge Spaulding filed in the same case seems to confirm this suspicion. It is believed that the case stands alone in its far-reaching application of the home-rule provision and that the decision is out of line with the latest and best-considered authority.

Dismissing technical refinements and applying the rule of reason to this provision, let us inquire into its purpose and meaning. Obviously it was intended to preserve to local communities the right to administer their own affairs in their own way by instruments of their own choosing. The underlying idea was that the people of a given community would be more familiar with and more interested in their own affairs than outsiders would or could be. That officers chosen by them would better understand their needs and more intimately sympathize with their viewpoints. The ultimate object was to secure a neighborly interest and preserve friendly relations between the community and their officials, and to promote harmony as well as justice in the administration of local law. It is difficult to see wherein any of these rights are denied or any of these objects defeated by a law authoriz-
ing the reassessment of property when the officer chosen by the community for this purpose has failed in his duty.

Observe that a reassessment law does not prevent the community from electing its own assessor nor divest the office of any of its essential functions; that it does not remove nor suspend the assessor from office nor abridge the length of his term. In short, that it does not interfere at all until it is found that he has violated the assessment laws, and then that it interposes for the sole purpose of correcting his error. The right to reassess does not arise nor can the power be exercised until it has been definitely ascertained that the original assessment was unlawful, and that public interest will be promoted by a reassessment. The person appointed to reassess is not an officer (State v. Daniels, 143 Wis., 649), and his sole authority is to remedy and correct the unlawful work of the regular assessor. When that is done he retires from the scene, leaving the assessor in full charge and possession of his office, allowing him to make the next assessment if his term covers that period, and if not leaving the community to select his successor. How can it be said that any right guaranteed by the constitution is denied by a law of this kind, unless it be license to violate law? Is the practice of unlawful assessment a constitutional right? Must the state stand idly by while its laws are being violated, its revenue jeopardized and its citizens made the subject of ignorant or wilful discrimination—helpless in the presence of an outgrown formula? Such a construction of the constitution ignores its spirit and purpose, substitutes form for substance, makes a part superior to the whole, in a sense subordinates the sovereign to the subject. In the language of Judge Winslow in the workmen's compensation case, to adopt such a rule of construction "would be to stretch the state on a veritable Bed of Procrustes."

But it may be said, Why not go to the courts for relief against unlawful assessment? The answer is, That their judgments affect only the parties before them; their methods are too technical and their remedies too expensive for the small taxpayer; the practice too dilatory for annual use, and
the machinery wholly inadequate for broad constructive relief. It is true that courts may order reassessments under certain conditions, but if so note the dilemma: The court must either appoint independent agents to make the reassessment, in which case the obstacle of the home-rule provision arises to the same extent as under a reassessment law, or it must appoint the same person who made the impeached assessment to repeat the farce performance. In practice the judicial remedy has proven ill-suited and inadequate for the purpose. A simpler, quicker and more comprehensive remedy is re-

Fortunately a more liberal rule of constitutional construc-
tion is gaining ground. It was inaugurated by the great
apostle of constitutional law in reading the doctrine of im-
plied power into our federal charter. It has been repeated
by numerous judges since his time, and has finally reached
the field of taxation. To quote Judge Winslow again, "Con-
stitutions are very human documents framed to meet the
problems and difficulties which faced the men who made them,
and reflecting with more or less fidelity the spirit of their
times. While the language of the constitution is fixed, the
conditions and problems to which it must be applied are con-
stantly changing." In that situation shall the letter or the
spirit of the instrument control.

When most of our state constitutions were framed the
character of taxable property was simple and its value easily
determined. The task was performed by local assessors,
and their duty was to measure, weigh and count. Steam and
street railways, with their valuable franchise rights, either
did not exist at all or were few and unimportant. The mod-
ern public utility was unknown. Practical necessity com-
pelled the selection of experts to appraise them, including
the physical properties used in connection with the franchise.
This physical property had been previously valued by local
assessors. But these functions have been taken from them
and laws to that effect have been universally upheld. The
cases sustaining the railway tax laws of Michigan and Wis-
consin and the special franchise tax case of New York are
notable examples. The courts of Michigan and Minnesota have already sustained reassessment acts similar to the one under consideration (State tax commissioner v. Board of assessors, 124 Mich., 491; State v. Minn. & Ontario Power Co., 141 N. W., 839). The latter court went even farther and upheld an act authorizing the governor to appoint a special agent to appraise property which had been under-valued in former assessments and insert the excess on the current tax roll. (State v. Weyerhauser, 68 Minn., 353). The attitude of the New York court is fairly indicated in the able opinion of Judge Vann in the special franchise tax case. It was there said:

"This supreme power of the legislature (over taxation) should be considered in connection with the home-rule provision of the constitution and neither should be so construed as to embarrass or cripple the other. Home rule as understood and practiced in the past, giving to localities the right to govern themselves but not to hamper the government of the state, should be carefully protected from open attack or indirect invasion. Shadows, however, must give way to substance and the right to create a new system of taxation and bring in property of a new character hitherto untaxed with other property incidental thereto and worthless without it, cannot be denied upon principle and should not be withheld from the legislature unless required by some controlling decision of the court."

The quoted language fairly indicates the trend of modern decisions in the field of taxation and affords special encouragement for the tax revision commission of New York. Precedents can be found for and against the right to reassess local property by state authority. It would be presumptuous to predict how far the court of any given state may go in that direction. Much will depend upon the language of the constitution and the scope of the statute in each case, but more, it is believed, on the temper of the courts. At least three of the western states have blazed the way. Experience has shown that the right of reassessment by state authority is of the first importance in the administration of the property tax.
It is the final link necessary to complete the chain of authority between the highest and lowest taxing authorities of the state, and is the surest guarantee of equality of burden among individual taxpayers.

According to the last published report of the Minnesota Tax Commission, that body reassessed the real or personal property of seven assessment districts of the state, and the item of money and credits in 304 towns, cities or villages during the years 1911 and 1912. The Michigan Tax Commission has also freely and beneficially exercised the power conferred by the statute of that state. Although less than two years have passed since the decision in the Daniels case, and the introduction of the income tax required the primary attention of the Wisconsin Tax Commission during the first of these years, there has been a marked improvement in the character of our assessments. During this period 56 applications for reassessment have been made and 23 of that number granted. Reassessments have been completed in 14 districts, including the important cities of Janesville and Racine, and are now in progress in three cities, one village and five towns of the state. Six applications have been denied and complaints have been withdrawn or satisfactorily adjusted in five cases. Applications are now pending in 22 assessment districts of the state, including the city of Oshkosh. In most cases where reassessments have been completed marked discrepancies have been disclosed. In the city of Janesville it was found that personal property had been assessed all the way from 10 to 120 per cent of its true value.

But the true test of the statute is not the number of applications received or of reassessments actually made. Its chief value consists in its preventive or corrective effect on indifferent assessors and on backward or rebellious communities. The fact that the power exists, coupled with the knowledge that it can and will be exercised, exerts surprising influence. After application made, the first step is a preliminary hearing or inquiry as to the character of the assessment complained of. This hearing is generally held in the district from which the complaint is received, and is always attended
by the officers of that district and usually by a large number of taxpayers. The character of the assessment is there inquired into, its deficiencies pointed out and its inequalities exposed to the people of the community. The publicity thus secured stimulates the interest of assessors and taxpayers alike and measurably aids in securing better assessment. In many cases the preliminary hearing has been followed by voluntary corrections of inequalities in the current roll and satisfactory assurances that the error will not be repeated. In no case where reassessment has been made has the district relapsed into the former errors.

While increased valuation does not necessarily mean good or equal assessment, it strongly tends in that direction. Low or percentage valuation is well calculated to conceal inequality and furnishes a favorable breeding ground for discrimination. Higher valuations accentuate differences and disclose inequalities that would readily escape the attention of taxpayers under a low assessment. Tested by this standard, recent assessments in Wisconsin show an increase in the ratio of assessed to true value of from 61.28 per cent in 1910 to 64.86 per cent in 1911, 73.2 per cent in 1912, and from 82 to 85 per cent in 1913. Reports of the 1913 assessment have not yet been received from all assessment districts, but complete returns from 35 of the 71 counties of the state show that the ratio of assessed to the true value of all taxable property therein for the current year is about 84 per cent of true value, according to the five years' sales average. The county of Milwaukee, comprising about one-fifth of the property and population of the state, is assessed at 96 per cent of its true value; the property of Ashland county at 97 per cent; Manitowoc county at 92 per cent; and of Dane county, containing the state capital, at 89 per cent. These figures indicate the progress made toward a full value assessment, and is believed that the increase in value in each case was accompanied by a corresponding, if not greater, improvement in uniformity and equality, and that our 1913 assessment of general property is unquestionably the best the state has ever known.
It would be improper to credit all the improvement noted to the reassessment statute alone. Forty-one assessors of incomes distributed throughout the state have played an active and important part in bringing about this result. The Wisconsin income-tax law provided for the appointment of as many assessors of incomes as the tax commission may deem necessary, and transferred to these officers the powers and duties formerly exercised and performed by the supervisors of assessment. These officers are appointed by the tax commission under civil service rules and work under its direction. They devote their entire time and attention to the administration of the income tax and the supervision of local assessors and have proved a particularly zealous and intelligent force. They hold annual meetings for the instruction of assessors in their respective districts, advise them in the performance of their duties, inspect their work and report upon their efficiency. While their authority over the local assessor is still advisory and they cannot directly control his conduct, the statute authorizes them to make complaint in case of positive violation of the assessment laws and ask for the assessor's removal. This course, however, is seldom resorted to as the authority to apply for and secure a reassessment at the expense of the taxing district has proved more effective.

This, in brief, is the method and these the agencies employed to improve our assessment conditions in recent years. We indulge no delusions that the goal of equal assessment has been reached, nor that the millenium in taxation has arrived, but we do believe that we are moving in the right direction. Wisconsin is often referred to as a political kindergarten, where novel experiments in government are tried and the results loudly advertised, and we may not be over modest in this respect; but the methods here discussed are neither strange nor novel. They merely recognize a familiar principle, applicable in taxation as elsewhere, that efficiency is the joint product of responsibility and power. Experience has taught the futility of maintaining an expensive centralized department for the improvement of tax conditions and
limiting its powers to writing hortatory letters to heedless assessors and the preparation of learned reports to stand on dismal shelves and gather dust and fly-specks. Efficiency in tax administration requires strong and intelligent direction from above, coupled with power to compel attention from subordinates below, commanders in camp and lieutenants in the field to make counsel bear fruit in consequence. Supervisors of assessment with the right to reassess are potent agencies for that purpose.
PROBLEMS AND PLANS OF THE STATE BOARD

THOMAS F. BYRNES

Chairman State Board of Tax Commissioners of Albany, N. Y.

Close examination of the laws bearing on taxation in our state shows that New York, greatly exceeding in wealth and population the other commonwealths, is far behind many respecting the efficiency of its taxing system. So true is this, and so inexhaustible is the problem now confronting us, that the only solution seems to be the rewriting of the entire tax law. Most of this statute under which we are now struggling is the same, in substance, as is found in the statute books of fifty and sixty years ago. Acts added in the last ten or fifteen years had for their first purpose the raising of revenue for immediate needs rather than the building up of a proper tax system in this state. As more money was needed to maintain government, the legislature reached out its hand and took as subjects of revenue such objects of taxation as were most easily obtained. In some cases the payment of a small initial fee was made the means of exempting from other taxes personal property belonging to the locality. No gain was therefore made to the public at large, for the state made a temporary gain and the locality suffered a permanent loss.

The problems of the state board to-day are many:

First. Under-valuation of Real Property and Inequality of Assessments Generally.

In the state board of tax commissioners is vested the power of investigating and examining into methods of assessments throughout the state. It should be noted that authority is given only to investigate and examine, and this authority is valueless so far as correcting what I term the vital defect in a just tax system—the under valuation and unequal assessment of property. The one remedy open to an ag-
grieved taxpayer lies in a court action, that is a certiorari proceeding, and in a majority of cases the costs of such action exceed the amount of the tax in dispute. No real reform can come in the assessment of real property until there is vested in some central body the power to order a reassessment, after investigation has proven that injustice has been done. Any taxpayer should have the privilege of appealing to this central authority without cost to himself. Such a provision of law would amply protect the small home owner, who may at present be shut out from obtaining redress because of the expense of a lawsuit. And this central body should also have power to punish officials who are derelict in assessing property on the basis fixed by law.

As a further means of obtaining equal assessments, this central taxing body should be vested with authority and power to value all the real property of public service corporations.

The state board of tax commissioners in this state to-day is required to value special franchise property, that is the tangible property of individuals and corporations occupying the streets, highways and public places. To this valuation is added the value of the right to use the streets, or what is known with us as the intangible value. The fact that millions of dollars have been added to the local assessment rolls through this central body making these valuations, proves the wisdom of this method.

It would be very simple to extend the power of the board to make valuations of the real property of all public service corporations both in and outside of the public streets, and have the valuations as made certified to the local assessment roll for general tax purposes.

Second. The State Board of Tax Commissioners is Required to Advise Local Assessors as to their Duties in Relation to Taxation.

In plain language, this provision is a farce. This board may write long letters, furnish copies of opinions of the Attorney-General to local tax officials, often with the result that their advice and instructions are not followed. The law obligates the board to do certain things, but gives it no au-
thority to carry its rulings and instructions into effect. The instructions of the state board of tax commission should have the same binding force as is now given the orders of our public service commissions and conservation commission, which, once issued after notice and hearing held, are subject to appeal only to a court of competent jurisdiction. Until such time as local tax officials are required to follow the rulings of a central body, citizens in general will not be treated equitably and fairly. The fruits of local prejudices, political differences and hatreds, business interests, ignorance and stubbornness too often manifest themselves in assessments of property to-day.

Third. Collection of Taxes in the State.

The machinery for the collection of local taxes in this state has not kept pace with its growth and the advancement in other business methods. The same scheme generally is in force as existed half a century ago. The best solution this board sees is the collection by one official of all the taxes in a county. If this change be considered too radical each town might have its collector, rather than permit the town to be itself subdivided into tax collection districts. This would mean a tremendous change in the present system, but as every manufacturer knows, great good can at times come only through a general and thorough overhauling of the plant. To my mind, the present is the opportune time. The man who owns property usually is ready and willing to pay his taxes, but finds there are so many of them he cannot help unintentionally missing some, and before he is aware of it his property is placed on sale. Mr. Alfred E. Holcomb, Treasurer of the National Tax Association, has given this particular subject an exhaustive examination, and his suggestions and conclusions are most valuable.

Fourth. Special Franchise Property.

The machinery for carrying the valuations as made by the state board on the local assessment rolls is cumbersome, confusing and unsatisfactory. The board is now required to give two hearings; the first on the full valuation and the second on the equalization as compared with the assessment of other
real property in the tax district where the franchise is operated. At the first hearing only the owner of the property is represented. At the second, both the owner and the local officials may be heard. In our judgment these hearings could well be combined. A saving in expense both to the state, the local officials and the owner of the property would result. All could be heard together and no injustice to any one would result. Many times complaint is made by the assessors that the full valuation is too low. This complaint is made at the equalization hearing, and then the time for making changes and corrections has passed.

The method of apportioning special franchise taxes among school and special districts also needs much revision. The tax law, to our mind, should be much clarified, and some basis established where constant conflict between property owners and local officials would be eliminated and greater harmony prevail between the taxpayers and their servants, the assessing officers.

Fifth. Personal Property of Domestic and Foreign Corporations.

A popular strategic move with foreign and some of our domestic corporations is to shift from one locality to another their principal offices or places of business for the purpose of escaping taxation on their personal property, which under our tax law must be assessed at such principal place of business. This shifting is also frequently done to obtain better terms in regard to assessments. This latter trickery can, of course be successful only through collusion with the taxing officials. While this board is given authority to determine the place of taxation of persons, it is not altogether clear the provisions of section eight of our tax law extends to us this authority over corporations. This ambiguity should be eliminated, and in addition all corporations, domestic and foreign, should be compelled by law to file a statement with the central tax body showing where they claim their principal office to be, and that they hold themselves liable to tax on personal property in that particular place. The frequent shifting of addresses, as described above, has proven very annoying and
perplexing to local assessors. Many times, as previously said, it is done to escape a just proportion of tax burden.

Sixth. Forms for Local Tax Officials.

For several years the question of forms for local officials has occupied the time and attention of the members of our state board, and much earnest study has been given to this all-important subject. Of these blanks, the assessment-roll is of course the first to be considered. It can plainly be seen that unless the assessment appears correctly on the roll constant trouble and annoyance will result. The powers of the state board are to-day, as they have been in the past, much circumscribed by statute when they come to adopt a roll. For many years the board has sought to have these powers increased. Against its wishes, in 1911 a change was made in the law, making mandatory the adoption of a three-part roll for all town, city and village purposes, and this section of the law specifies precisely what the columns shall be in each of the three parts, affording no leeway to meet any peculiar conditions in the locality, nor allowing the board to prescribe a form which will not alone meet the needs of the locality, but other sections of the tax law and other laws that read certain requirements into the assessment roll.

Taxation of Companies and Individuals Owning Branch or Chain Stores Throughout the State.

In most cities and large villages foreign and domestic corporations operate branch stores wherein is sold merchandise of many kinds and descriptions. Under the law, the stocks of goods in such stores are taxable at the principal place of business of the corporation in this state. Through skillful shifting processes,—changing the place of business, no tax at all is paid. It is neither right nor just to the local merchant who has to compete with this class of stores, and who, generally, is public-spirited enough to wish to pay his taxes. It is our plan that the law be so changed that stores operating in various tax districts, whether owned by corporations or individuals, shall pay an occupation tax, or a tax measured by the benefits they receive in the particular locality where they have each of their stores, or pay a tax on the tangible per-
sonal property invested in each particular tax district. The details of such a scheme could be worked out without great trouble.

Steamboats and Water Craft of All Kinds.

The provisions for the taxation of water craft in this state are very ambiguous and obscure. Coupled with the exemption of certain parts of the property of corporations owning them, the whole proposition does not work out satisfactorily. Ordinarily they pay little or no taxes to the state or localities. The resultant injustice has been brought to the attention of the board in many instances, especially from interior tax districts and cities and villages bordering on Canada and other states. A more precise method should be adopted in the registration of all water craft owned by individuals, domestic and foreign corporations, carrying freight or passengers between ports in this state. There is no reason why inland boats, competing with rail transportation companies, should not pay their proportionate share of the taxes. It is like many provisions found in the tax law of exemption or statutory reduction of taxes which the legislature has not seen fit to repeal. This class of property should be placed on a footing equal to that of other property within the dominion of the state.

Conclusion.

I feel that sufficient time has been devoted to pointing out the most necessary and urgent changes which should be made in our present tax system. To take up all the plans and problems of our board would require the greater part of this session. There exists in this state to-day a commission of eight, authorized to revise and codify the tax law, and it is my wish as present chairman of the state board of tax commissioners and also as chairman of the revision commission to obtain real results from the workings of that commission. A big problem confronts us. Our present tax law is most confusing, and with the great wealth and population of this state, both growing in ever-increasing ratio, many perplexing situations and conditions are bound to arise. A workable tax law is necessary that order may be brought out of the chaos which now exists.
DISCUSSION—NEW YORK TAXATION

Mr. Charles J. Tobin, of New York: I suggest that we take up the discussion of Mr. Woodbury's paper. It is most important to us from New York and I know the members of the New York Commission are anxious to have it discussed by the members from other states.

It is noted that other states have tried to copy some of our special tax laws enacted in the last ten or fifteen years; and it is the belief of many from New York that this method of collecting taxes is not proper or correct. We do not want other states to follow New York until they know thoroughly just what it means. As explained and fully set forth by the chairman of the board, Mr. Byrnes, it is the opinion of the members from this state that the tax system of New York should be entirely rewritten. And we do not want New York held up as an example so far as some of these statutes on the books are concerned.

Mr. Charles H. Shields: I want to raise the question of franchise value. I do it for the purpose of getting information.

In the paper just read by Judge Woodbury he refers to so many railroads that are not paying, and to so many that were paying. The general understanding of the term "franchise" is, that it is a privilege granted by society to certain individuals, or corporations, to have the exclusive use of certain streets, highways, or rights-of-way through the public domain, and the recipient in return for this privilege is to conduct some kind of a public service. This privilege is generally supposed to have an earning capacity which would of course give it a value. It is this value the public so much desire to tax. Now when this special privilege has no earning power there is no franchise value to be taxed, if we desired to tax it, which in my opinion is not the best way to secure the desired results.
There is but one way of determining the value of a franchise, that is by capitalizing the net earnings of the public service company at a rate of interest considered to be a fair return for capital so invested, subtract from this sum the physical valuation, the remainder will be the value of the franchise. In the cases cited by the Judge, where the public service corporations are not earning a fair interest on their physical valuation, there can be no value in their franchise.

In the single-tax campaign in Oregon of 1912 this question was gone into very thoroughly. The single-tax people submitted to the voters of Oregon, a constitutional amendment, which they named the Single Tax Exemption Amendment. This provided for the exemption of all personal property from taxation. They proposed to tax franchises, and in this way more than make good what they would lose by the exemption of the personal property of the public service corporations. This argument at first appealed to the people, but when the truth was made known, as it was, the fallacy of such an argument was too apparent to pass unnoticed.

I spent some time in gathering the data on this matter and submitted it to the people. In brief it was as follows: The total assessed valuation of the public service corporations of Oregon was found to be $106,000,000, which is 72% of the total value. The total was determined by capitalizing the net earnings at 6%. From this $106,000,000 we subtract the physical valuation, 72% of which was $97,000,000, leaving the sum of $9,000,000 which represents the total value of public service franchises in the state of Oregon. This $106,000,000 paid an average tax rate of 18 mills, which would produce in revenue the sum of $1,008,000. The $9,000,000 of franchise value, at the high rate of three per cent, which the graduated single tax exemption amendment provided for, would only return to the state the small sum of $270,000 or a loss to the state of $1,738,000 in revenue, which sum the people were not quite willing to part with.

When public service corporation service rates are regulated by public service commissioners, and the rates based upon a fair return for the physical valuation of their operating property, any excessive tax placed upon them, will be re-
DISCUSSION ON NEW YORK TAXATION

Mr. Charles J. Tobin, of New York: Mr. Chairman, I can answer partially. The special franchise law in New York State, providing for the taxation of tangible and intangible property in the public streets, was passed in 1899, eight years before the public service commission we now have came into existence. There has been much discussion, pro and con, as to whether the present method of valuing the intangible property with the tangible property is proper and correct. Let it be noted that the statute gives or demands no precise method. On the state board of tax commissioners is conferred practically the same power to value special franchise property as is given to local assessors to fix a valuation on real property in their districts. It is true that the courts, in deciding certain cases brought before them under this statute, have laid down some rules which the board shall follow under conditions which are analogous, or for the particular corporation suing; but if these conditions prevail not, there is no restriction on the state board as to the method to be employed. They may use any plan which seems to them to be in conformity with the statute. In many cases the court has prescribed the so-called "net earnings rule" as the method to be followed. But if it be proven that this rule produces no intangible value, and there is known to be a value to the franchise, or right to operate, the board is allowed to adopt some other method in arriving at the value of such franchise. It is along these lines that the board endeavors to work. It has a very difficult task to contend with, more particularly in the cases of steam railroads, which have in some towns only a small piece of track, sometimes less than two hundred and fifty feet in length. The same is true of telephone and telegraph companies having small wire crossings. It is hoped that in the near future the legislature will lay down some definite rule or method to guide the board.
in making special franchise valuations, which of course will absolve its members from any criticism as to the means and ways used in valuing property in the streets and other public places.

Mr. LawsoN Purdy: Judge Woodbury mentioned a certain report made to the board of tax commissioners of the city of New York by a sub-committee of the board. I think it might add to the interest of Judge Woodbury's paper if that brief report were published in the proceedings after his paper. I will submit it for the consideration of the committee on publication.

There was just one point in the report to which I should like to call the attention of this body. The report is a brief survey of the history of special taxes in the city of New York, which were first initiated in the year 1880. In the year 1880 in the city of New York real estate paid 87 per cent of the taxes. These special taxes would probably not be approved in all their aspects by any one. Nevertheless in the year 1912 real estate paid 65 per cent of the taxes in the city of New York instead of 87 per cent as in the year 1880. [The report referred to follows.]
TAXATION OF PERSONAL PROPERTY IN NEW YORK STATE
FROM 1880 TO 1913

REPORT OF A SUB-COMMITTEE OF THE BOARD OF TAXES AND ASSESSMENTS,
CITY OF NEW YORK

Edward Kaufmann, \( \textit{Sub-committee} \)
Daniel S. McElroy, \( \textit{Sub-committee} \)

Taxes are imposed on persons and property in the State of New York under the provisions of State law, operating throughout the entire State. There are in many city charters and village charters certain administrative provisions which affect the date of assessment or the manner of protest or appeal or some similar administrative act. But the liability to taxation is uniform throughout the State because it is found in one general act, known as the Tax Law.

The fact that this general act is administered by local officials has led some persons to believe that their local officials have discretion to impose taxes or exempt from taxation, which is not the fact.

Since 1880 the policy of the State of New York towards the taxation of personal property has been to classify such property and to impose a special tax upon each separate class. As each class has been defined in the tax law and subjected to its special tax, it has been withdrawn from liability to the general property tax. This has caused the assessed total of personal property subject to the general property tax to shrink in amount. Many persons, seeing only this shrinking total, have assumed that other personal property has been exempted from taxation.

The object of this report is:

1. To point out the large revenue derived in the State of New York from these special taxes on classified property.

2. To show that a larger revenue is derived from these special taxes than could be had by attempting to reach such classified property by the personal property tax, either at the current local rates or at a low rate such as three mills.

3. To show that under the classified tax policy of New York State the proportion of taxes paid by real estate has been greatly decreased and the proportion derived from the other sources greatly increased.

4. To show that the passage of the Secured Debt Law has not resulted in any loss of revenue, but has been new found revenue.
The Enormous Revenue Derived from Special Taxes on Classified Personal Property in the State of New York

Indirect Taxes Annually Collected in State of New York

1. Corporation Taxes produced \( \ldots \) $10,349,164.76
   
   This is equivalent to a tax of 2% on \( \ldots \) $517,458,238.00
   
   or a tax of 3 mills on \( \ldots \) 3,449,721,555.00

2. Tax on Organization of Corporations
   
   produced \( \ldots \) $472,959.81
   
   This is equivalent to a tax of 2% on \( \ldots \) 23,647,990.00
   
   or a tax of 3 mills on \( \ldots \) 157,653,233.00

3. Inheritance Tax produced \( \ldots \) $12,153,188.84
   
   This is equivalent to a tax of 2% on \( \ldots \) 607,659,442.00
   
   or a tax of 3 mills on \( \ldots \) 4,051,062,946.00

4. Stock Transfer Tax produced \( \ldots \) $3,653,037.24
   
   This is equivalent to a tax of 2% on \( \ldots \) 182,651,862.00
   
   or a tax of 3 mills on \( \ldots \) 1,217,679,080.00

5. Secured Debt Tax produced \( \ldots \) $1,411,567.60
   
   This is equivalent to a tax of 2% on \( \ldots \) 70,578,380.00
   
   or a tax of 3 mills on \( \ldots \) 437,189,200.00

6. Mortgage Recording Tax produced \( \ldots \) $3,704,648.90
   
   This is equivalent to a tax of 2% on \( \ldots \) 185,232,445.00
   
   or a tax of 3 mills on \( \ldots \) 1,234,882,966.00

7. Tax on Motor Vehicles produced \( \ldots \) $1,053,762.25
   
   This is equivalent to a tax of 2% on \( \ldots \) 52,688,112.00
   
   or a tax of 3 mills on \( \ldots \) 351,254,083.00

8. Bank Tax produced \( \ldots \) $4,528,705.85
   
   This is equivalent to a tax of 2% on \( \ldots \) 226,435,297.00
   
   or a tax of 3 mills on \( \ldots \) 1,509,565,283.00

Total of above indirect taxes produced \( \ldots \) $37,327,026.25

This is equivalent to a tax of 2% on \( \ldots \) 1,866,351,312.00

or a tax of 3 mills on \( \ldots \) 12,443,342,083.00

Note—The total assessed value of all real estate in the State of New York is $10,561,501,373.

In addition to the revenue shown above from special taxes, personal property, not classified and specially taxed, was assessed in the State of New York for $462,300,841.

Of this amount $104,377,718 was outside of The City of New York.

An average tax rate of 2% on this would produce \( \ldots \) $2,087,554.00

In The City of New York the assessment was $357,923,-

123 and the tax rate of 1 83/100% on this would produce \( \ldots \) 6,185,744.00

Total \( \ldots \) $8,273,298.00

Special Indirect Taxes \( \ldots \) 37,327,026.00

\( \ldots \) \$45,600,324.00
This total of $45,600,000 is produced annually by taxes that have been substituted for the personal property assessment.

Is it conceivable that any sum approaching $45,600,000 could be obtained from the ordinary personal property assessment if these special taxes were repealed, and all personal property were again made subject to the general property tax?

At a 2% rate it would require $2,280,016,400 to produce such a revenue. And the largest personal assessment ever known in the State was only $800,000,000.

At a 3 mill rate it would require $15,200,108,000 (over fifteen billion dollars) to produce such a revenue.

Yet these special taxes produce $37,327,026 without any difficulty in administration, and without the perjury, friction and ill-feeling which must attend any attempt at a listing system, whether the tax be burdensome or light.

**Proportion of Personal Taxes to Real Estate Taxes**

If we assume a tax rate of 2% it will require...... $1,866,351,312

to produce the $37,327,026 now produced by the Special Indirect Taxes. Add to that the present assessed value of personal property subject to the personal property tax 462,300,841

Total .............................................. $2,528,652,153

Total assessed value of real estate is ............... $10,561,501,373

Hence the value of personal property on the equivalent of a 2% tax rate is 25% of the value of real estate, or 20% of the total of real and personal.

This may seem small, yet in 1880, before New York began its system of classified personal property taxes the proportion of personal to the total of real and personal was only 12.70%. So that the result of the inauguration of the present New York tax system has been nearly to double the proportion of personal to the total of real and personal. 12.70% of the present total of real and personal would be $1,400,022,880. Yet the indirect taxes on personal property produced the equivalent of a 2% tax on $1,866,351,312, and we still have $462,300,841 of personal property on our rolls! Hence any attempt to suggest that the imposing of special taxes has resulted in the exemption of personal property is simply ridiculous.

II

**How Much Personal Property, Tangible and Intangible, Owned by Citizens of the State of New York, Could be Made Subject to a General Property Tax, if All Special Taxes were Repealed?**

The amount of personal property owned by citizens of the State of New York is a matter of guess-work. No statistics are available. Inferences, however, may be drawn from such data as is available.
In the statistics on Wealth, Debt and Taxation in the United States in 1904, the Census Bureau estimates the "true value of all property and of specified classes of property as follows" for the State of New York:

True value

<table>
<thead>
<tr>
<th>Class of Property</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>of real property and improvements</td>
<td>$9,151,979,081</td>
</tr>
<tr>
<td>of live stock</td>
<td>189,662,043</td>
</tr>
<tr>
<td>of farm implements and machinery</td>
<td>58,806,300</td>
</tr>
<tr>
<td>of manufacturing machinery, tools and implements.</td>
<td>486,774,713</td>
</tr>
<tr>
<td>of gold and silver coin and bullion</td>
<td>412,832,428</td>
</tr>
<tr>
<td>of railroads and their equipment</td>
<td>898,222,000</td>
</tr>
<tr>
<td>of street railways, shipping, water works, etc.</td>
<td>1,151,475,505</td>
</tr>
<tr>
<td>of all other, including products of agriculture, manufacturing, imported merchandise, clothing and personal adornments, furniture, carriages and kindred property</td>
<td>2,419,290,137</td>
</tr>
<tr>
<td>Total</td>
<td>$14,769,042,207</td>
</tr>
<tr>
<td>Deduct real property, railroads and street railways, etc.</td>
<td>11,201,676,586</td>
</tr>
<tr>
<td>Leaves</td>
<td>$3,567,365,621</td>
</tr>
</tbody>
</table>

But included in this is imported merchandise and some other items which would be practically impossible of assessment. On the other hand there has been some increase since 1904. Perhaps one item balances the other and leaves the total at the present time unchanged.

This sum ($3,567,365,621) covers, substantially all tangible personal property because it includes:

a. Horses, cattle and all live stock.
b. Carriages and wagons.
c. Furniture, books and pictures.
d. Jewelry, clothing and personal effects.
e. Merchandise and stock in trade.
f. Machinery and tools.
g. Vessels.

Intangible Personal Property

This includes mortgages, bonds and credits generally.

Mortgages.

The mortgage recording tax paid last year was upon a total of $740,929,780. Assuming that the average life of a mortgage is five years, the total mortgage indebtedness of the State would be $3,704,648,900.

Bonds.

Corporate bonds as a rule are secured by mortgage on real estate and hence are included under mortgages. Let us assume, however, that the
bonds not secured by mortgage or secured on property outside of the State and owned by residents of the State, equal one-half the amount of real estate mortgages and we have $1,852,324,450 as the investment in bonds.

Credits Generally.

Under this head are included deposits in banks, book credits, promissory notes, etc. Here we are left to pure conjecture, but assuming $200 per capita (which seems ample) we would have $1,800,000,000.

Summary of Personal Property

<table>
<thead>
<tr>
<th>Type</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tangible personal property</td>
<td>$3,567,365,621</td>
</tr>
<tr>
<td>Mortgages</td>
<td>3,704,648,900</td>
</tr>
<tr>
<td>Bonds</td>
<td>1,852,324,450</td>
</tr>
<tr>
<td>Credits, etc.</td>
<td>1,800,000,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$10,924,338,971</strong></td>
</tr>
</tbody>
</table>

Note—The total assessed value of real estate in the State of New York is $10,561,501,373. Yet we are to-day collecting in special taxes $37,327,026.25, which is the equivalent of a tax of 3 mills on $12,443,342,083.

If we were to repeal all our special taxes and should succeed in listing every dollar of this $10,924,338,971 of personal property on the tax rolls, a tax of 3 mills on this sum would be $32,773,016.91, which is $4,754,009.34 less than the present revenue derived from our special taxes.

And under our present system, in addition to the revenue from special taxes, as above, we have on our local tax rolls the sum of $462,300,841 subject to current local rates.

But it is inconceivable that with the most rigorous enforcement of the law and the utmost diligence and intelligence on the part of assessors, more than one-half of this total of $10,924,338,971 could be placed on the rolls, in which event a tax at the rate of 3 mills would only produce $16,386,508.45 instead of $37,327,026.25, now produced in special taxes.

Who Would Pay

First of all the farmers, for they have $189,662,043 of live stock and $58,806,300 of farm implements and machinery. This would all be open to the view of the assessor and could not escape. And it would be all new found revenue because practically none of the special taxes fall on the farmers now.

Second, the manufacturers, who have $486,774,713 of manufacturing machinery, tools and implements. These also would be open to the view of the assessor. But note that to-day our taxes on corporations produce $10,349,164.76 and on organization of corporations $472,959.81, a
total of $10,822,124.57, or the equivalent of a 3-mill tax on $3,607,374,788.

Third, the merchants, whose stock of goods would be open to the view of the assessor.

Fourth, the householders, whose furniture, clothing, books, silverware, pictures, jewelry, horses, carriages, automobiles, etc., would all be subject to appraisal and assessment by the assessor.

Fifth, the investors in bonds, mortgages and notes, who would be as diligent as possible in concealing such possessions from the assessor.

Note that under the mortgage recording tax and the secured debt law the investors in such securities now have to pay a tax on such securities.

The result then would be that farmers, manufacturers, merchants and householders would all pay more under such a system and that the owners of bonds, mortgages and notes would be left as they are now, unless they voluntarily listed their securities with the assessor.

And the further result would be that if every farmer, manufacturer, merchant and householder paid on all his tangible property, and investors listed all their bonds, mortgages and notes, a tax of 3 mills on all this would produce $32,773,061.91 instead of $45,600,324 under the present system.

III

DIVISION OF TAX BURDEN AS BETWEEN REAL ESTATE AND PERSONAL ESTATE

Prior to 1880 the classified tax system of the State had not been inaugurated. Apart from the incidental revenue from fees, fines and sales of State land, etc., the revenue of the State was derived from the direct State tax on the assessed value of real and personal estate in the several counties.

The report of the State Board of Tax Commissioners shows that in 1880 the assessed value of real estate in the entire State was $2,340,335,690. In the same year the assessed value of personal estate in the entire State was $340,921,916. That is to say, real estate comprised 87% of the total and personalty only 13%.

In 1913 in the City of New York the total budget of the City was $192,711,441.16. Of this sum $41,581,991.46 was derived from the revenues of the General Fund and $5,913,295.26 was the total tax assessed against personal property, leaving as the total tax to be assessed and levied on real estate the sum of $144,216,154.44. This is only 75% of the total budget of the City, so that in so far as city taxes alone are considered, the tax burden on real estate had fallen from 87% to 75% in the period from 1880 to 1913.

In this total of $41,581,991.46, constituting the revenue of the General Fund, is included the tax on bank shares, the City's half of the excise tax, the City's half of the mortgage recording tax, the market revenues, the excess of water rents and dock rents and all the other sources of city revenue which have been so carefully looked after and gathered up during these years.
But for the year ending September 30, 1912, the State budget was $50,036,406.08, and of this sum only $6,326,823.13 was raised by a direct State tax on the assessed value of real and personal estate. The balance of the State revenue, viz. $43,709,582.95, was derived from the indirect taxes, hereinbefore described, as forming part of the classified tax system of the State of New York.

In that year the equalized total assessed value of the real and personal property in the City of New York was $7,168,909,422.01. The total of such assessed value for the State was $10,121,277,461.48, and the City of New York thus had 70% of such assessed value. Seventy percent of $43,709,582.95 (the total revenue of the State from sources other than the direct tax on real and personal property) is $30,596,708.06, which represents the 70% of the City of New York.

If the State of New York had not developed this system of classified indirect taxes on property to supply its State treasury, it would have been necessary to raise the entire $50,036,406.08 by direct State tax, instead of only $6,326,823.13, as was the fact. In this event the City of New York would have been called upon to pay $30,596,708.06 more than it did for the year ending September 30, 1912.

Now let us add to the total City budget of $192,711,441.16 this sum which it was saved in direct State taxes $30,596,708.06

\[
\text{and we have } \quad 23,308,150.22
\]

as the total tax burden paid by the citizens of the City of New York as its portion of State and local taxes. Of this total only $144,216,154.44 was borne by real estate, or 65% of the whole.

Thus in 1913, as a result of the establishment of the classified tax system of the State, the burden of real estate has fallen from 87% to 65%.

IV

THE SECURED DEBT LAW HAS NOT REDUCED REVENUE

The Secured Debt Law provides for a tax of one-half of one per cent on certain bonds and other investment securities, and as a means of inducing payment, the offset of debt is withdrawn from any such security which is not registered and stamped.

Under the old law bonds were theoretically taxable, but rare indeed was the case where an assessor found the owner of bonds who did not owe some debt which could be used as an offset. Now such debts do not avail against the unstamped bonds.

Thus the revenue under the Secured Debt Law is new-found revenue. As each class of personal property has been classified and placed under a special tax, the total of personal property subject to the general property tax has shrunk and the total of personal property actually assessed has also shrunk. Thus in the State outside of the City of New York the total assessed value of personal property has dropped from $197,000,000 in 1899 to $105,000,000 in 1911.
In the City of New York the share of taxes from personal property can be measured better by the actual collections than by the assessment. (Up State, the figures of actual collections are not available.) Thus the Receiver of Taxes in the City of New York has collected as follows from personal property assessments:

<table>
<thead>
<tr>
<th>Year</th>
<th>Collections</th>
</tr>
</thead>
<tbody>
<tr>
<td>1906</td>
<td>$4,336,946.95</td>
</tr>
<tr>
<td>1907</td>
<td>4,449,014.86</td>
</tr>
<tr>
<td>1908</td>
<td>4,428,421.42</td>
</tr>
<tr>
<td>1909</td>
<td>4,629,508.95</td>
</tr>
<tr>
<td>1910</td>
<td>4,884,543.85</td>
</tr>
<tr>
<td>1911</td>
<td>4,417,948.31</td>
</tr>
<tr>
<td>1912</td>
<td>4,508,013.88</td>
</tr>
</tbody>
</table>

In the City of New York until recent years it was the practice to assess each year enormous amounts of personalty on which nothing could be collected, with the result that the finances of the City were disorganized. In 1905 there were over $30,000,000 of uncollectible arrears of personal taxes, which by Chapter 208 of the Laws of 1906, were directed to be funded by the issue of City Bonds.

The Secured Debt Law was put into effect September 1, 1911, and it will be seen that its passage has had no appreciable effect on the receipts from personal assessments, despite the fact that $1,411,000 was collected under it the first year and that the revenue for the second year is coming in at the same or a slightly increased rate.

Incidentally it may be remarked that the personal property tax law has always been enforced in the City of New York with far greater diligence than up state. New York City returns 70% of the real estate values in the State and returns 80% of the personal estate values.

Practically all of the revenue under the Secured Debt Law has been paid into the New York office of the State Comptroller and presumably has been paid by residents of the City of New York. The amount paid into the State treasury under the Secured Debt Law has to that extent reduced the direct State tax, that is to say that the direct State Tax would have been greater by $1,411,000 had it not been for the revenue produced under the Secured Debt Law.

But New York City pays 70% of the State direct tax and hence has received benefit to the amount of 70% of $1,411,000, or $987,700, in the first year. Three million dollars had been received under the Secured Debt Law up to May 1, 1913. Hence, New York City’s share has been $2,100,000.

And every locality in the State has also benefited because the Secured Debt Law has reduced the direct State tax to the extent of 15 cents on each $1,000 on assessed valuation. In every city or town, then, which is equalized at 70%, there is a saving of 20 cents on $1,000 assessed value, or $200 on each $1,000,000 assessed value on the local assessment roll, and all this without diminishing the revenue from personal property assessment.
FIFTH SESSION

Friday Afternoon, October 24, 1913

Presiding—W. H. Corbin, Hartford, Conn.

Program

   John A. Fairlie, Professor of Political Science, University of Illinois, (Chief Clerk of Special Tax Commission of 1910-1911).

2. Is Less Taxation Practicable?
   Adelbert Moot, Buffalo, N. Y.

3. Discussion.

   Walter W. Pollock, Cleveland, O.

5. Discussion—The Somers System.

6. Round Table—Progress since the 1912 Conference.
   Chairman—L. E. Birdzell, Chairman State Tax Commission, Bismarck, N. D.
NEEDED TAX REFORMS IN ILLINOIS

John A. Fairlie
University of Illinois, Urbana, Ill.

A discussion of taxation in Illinois has little or nothing to offer to other states in the way of suggestions for bettering their systems of finance. In spite of the important position this state occupies in the Union, its system of taxation is still based on the general property tax; and even in methods of administration, it is far behind most of the states of the east and middle west, as well as many of those in the south and far west. This paper will therefore be for the most part a description and criticism of the present situation, with mention of some halting steps towards improvement, and plans proposed for bettering existing conditions.

The first state constitution of Illinois (1818) laid the foundations for the general property tax. But in practice, the early laws provided for a separation of state and local sources of revenue,—state taxes being levied on lands, and local taxes on town lots and some classes of personal property. Later acts developed the general property tax on the usual lines,—providing for the valuation of real and personal property, with increasingly detailed regulations. Under the early laws property was assessed by county officers; but with the introduction of township government in 1848, the assessment and collection of taxes was further decentralized and placed in the hands of town officers in counties which adopted the township system,—now in force in 85 of the 102 counties.

During the decade following the civil war, some important changes were made in the tax laws, especially in methods of administration; and the legislation of this period is still in force, with some modifications. The Constitution of 1870 contained a series of provisions on taxation in the article on revenue. These continued the requirement for the uniform
NEEDED TAX REFORMS IN ILLINOIS

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taxation of all property; but also authorized special taxes on various classes of corporations and business, and at the same time imposed limitations on local indebtedness and the county tax rate. The new revenue law of 1872 continued the system of local assessment by town and county officers; and further elaborated the rules for listing and valuing property, adding to the number of specified items of personal property required to be scheduled. Provision was also made for the review and equalization of original assessments by the county boards. Still further this law reorganized the state board of equalization (established in 1867) and, in addition to the power of equalizing county valuations, gave it the further authority of assessing railroad property and the capital stock of Illinois corporations. This board, was, however, composed of one member elected in each congressional district, (forming a body of 19 members, which has now increased to 26) and meets intermittently for only a few months each year.

Beginning in 1898 there have been some amendments to the revenue law, which have brought about a slight improvement in its administration. An act of that year made the county treasurer supervisor of assessments and reorganized and increased the powers of the county boards of review. This act also recognized the practice of undervaluation by providing that the "taxable value" should be one-fifth of the "full value"; and the assessments under this rule showed a considerable increase over those under the former methods. In 1909, another amendment provided that the "taxable value" should be one-third of the "full value". In connection with the increased valuations, limitations on the aggregate tax rate have been prescribed, with complicated provisions for scaling down the rates of the various local authorities.

While these recent changes have brought about some improvement, the defects and inadequacy of the present system of taxation are clearly evident. The local assessors lack both training and experience; yet they receive no definite instructions other than the terms of the law and are subject to no active supervision by state officials. The state board of equalization is a cumbersome body with very limited powers,
whose members have neither adequate training, expert assistance or sufficient time to perform properly even the duties assigned.

Under these conditions, it is not surprising that assessed valuations, both by local assessors and the state board, are even a considerably smaller proportion of true value than the one-third provided for by the law; and that these under-valuations vary widely between different local districts and for different classes of property.

Real property forms about three-fourths of the total assessed valuation, and is assessed with more approach to uniformity than other property. Yet there is evidence of important inequalities in realty assessments. Comparison of the assessed valuation with the census estimates of true value indicates that the taxable value ranges from the one-third of true value provided for by law in some counties to not more than one-fifth of true value in other counties. Town and city lots as a whole appear to be better assessed than other lands; and on the average appear to be assessed for about one-fourth of true value. But even in this class, unimproved lots are often assessed at a lower ratio than improved property. The assessed valuation of farm lands has clearly failed to keep pace with rapidly growing values. Such lands have doubled in value during the decade from 1900 to 1910, but the assessed valuation (allowing for the change in the legal basis of valuation) has only increased by one-third. For the state as a whole the "taxable value" of farm lands is less than a fifth of the census estimate of true value.

But these inequalities seem relatively unimportant compared with the assessment of personal property, which has not unfitly been called a farce. Except in rural districts, little attention is paid to the cumbersome schedule of items required to be listed; and the returns on such items show not only ridiculously small totals but also the most whimsical variations in the average values for the same class of property. Live stock appears to be assessed about as well as farm lands; but the taxable value of farm implements and machinery is only about six per cent of the census estimates for such property. Manufacturing implements and machinery
are assessed at a much smaller fraction,—about two per cent of the census estimates. Household and office furniture for the entire state is assessed for less than $20,000,000,—an average of $20.00 a family, although no exemptions are authorized under the Illinois law.

Most glaring of all is the failure to assess intangible personalty under the terms of the law. No definite comparisons can be made for such property; but the total amounts assessed are so small that it is clear that only an insignificant proportion of the total holdings is included. In rural counties, there is evidence that mortgages are partially assessed, perhaps one-fourth as well as real estate. But in the cities, and especially in Chicago, the assessed valuation of moneys, credits and other intangible personalty is obviously a much smaller fraction. While the assessed valuation of real estate in Cook County is about forty per cent of the entire state, the assessment for intangible personalty (other than bank shares which are more thoroughly assessed) in that county is only about one-sixth of the total for the state.

The experience of Illinois in the assessment of personal, and especially of intangible personalty, confirms the experience of other states, that such property cannot be reached through the general property tax. It is hardly necessary to argue here that the fundamental reason for this condition lies in the injustice of taxing such property on the same basis as real property. But even on the basis of the administrative results, the situation in Illinois shows the necessity for radical changes in the methods of assessing and taxing personal property.

These defects in the assessment of property valued by local assessors are by no means remedied by the action of the state board of equalization. That body has power to equalize the aggregate valuation of the several counties. But there is no provision for any examination into local conditions; and any changes made would at best be but haphazard guesses. In fact, the state board for more than a decade has recognized its inability to make any satisfactory adjustment, and has made very few alterations and in some years has made none at all.
Nor are the original assessments by the state board any more satisfactory. Its valuation of railroad property is better than under the earlier system of local assessments for such property; but the railroads appear to be assessed at a distinctly lower proportion of true value than is real estate in cities by the local assessors. The proceedings of the board fail to show the precise method of determining these valuations. But the valuations made have not advanced in the same ratio as for other property or in proportion to the increase of railroad earnings. The assessed valuation of all the railroads in the state is about a fifth of their true value, estimated on the basis of the reports of the railroads to the state railroad and warehouse commission,—or about four-fifths of the ratio of taxable to true value for town lots, and about the same as the ratio for farm lands. Moreover as between the different railroad companies, there appears to be wide variations in the approach to equality of treatment; while the method of apportioning the aggregate valuation of each road to the various local districts (on the mileage basis) discriminates in favor of some districts and against others, and operates so as to relieve the railroads of some tax burdens.

The assessment of the capital stock of corporations is based on what is sometimes called the "corporate excess", or the value of stocks and bonds above the assessed value of tangible property. It corresponds, in the case of public service corporations, to what is assessed in New York as franchise value; and this provision of the Illinois law might seem to offer a means for meeting some part of the deficiencies in the local assessment of intangible property. But only corporations organized under the laws of Illinois are assessed in this way; many important classes of corporations are excepted from the state board's assessment (those for manufacturing, coal mining, stock breeding, and publishing purposes); while the law does not make adequate provisions for compelling even the corporations subject to assessment to file the sworn statements prescribed. As a result the amounts assessed for a long time were insignificant; and even now are of little importance.

From 1875 to 1900, the maximum assessed valuation on
capital stock by the state board was $6,956,000 in 1890; for many years it ranged between $4,000,000 and $2,000,000; and for two years it was less than the latter figure. Since 1900, as the result of a suit brought by the Teachers' Federation of Chicago to compel the assessment of certain public utility companies in that city, the assessment of capital stock has been considerably larger,—ranging from $22,700,000 in 1902 to $10,608,000 in 1907, and increasing with the change in the legal basis of taxable value to about $30,000,000 for each of the last four years. Three-fourths of this is assessed on five public utility companies in Chicago; public utility companies in other parts of the state are assessed for much smaller amounts; and a considerable number of other corporations is placed on the list for small capital stock assessments, seldom exceeding $10,000.

There are no reliable estimates on which to base a comparison of assessed with true value of capital stock. But it may be noted that, taking into consideration the legalized fractional valuation, the assessment of capital stock in Illinois is less than a fourth of the "corporate excess" assessed to corporations in Massachusetts, and about one-sixth of the valuation of special franchises of public service corporations in New York State. In the latter state, the assessed valuation of special franchises is about seven per cent of the assessed valuation of real estate; in Illinois the total capital stock assessments are about two per cent of the assessed valuation of real estate.

In addition to the general property tax, some state revenue is derived from organization and license fees from corporations, fees and reciprocal taxes from insurance companies, an inheritance tax and a payment of seven per cent of the gross receipts of the charter lines of the Illinois Central Railroad, in lieu of taxes and in return for land grants and other privileges. But the state revenue from such sources other than the general property tax is a smaller proportion than in any of the North Atlantic States and less than some of the states in the Middle West.

The effects of these grossly inefficient methods of assessment and taxation are seen in the absurdly high nominal
rates of taxation,—the average rate for the state is about four per cent on the taxable value, and in some counties is over five per cent. At the same time the total amount of taxes and the revenue of public authorities falls below that in other states of less population and wealth, and far below in proportion to population or wealth. Nevertheless the tax burden is so unequitably distributed that it falls heavily on many taxpayers, while some classes of property pay much less than their share. The present system discriminates most heavily against the small property owners in cities. The undervaluation of farm lands reduces their share of state and county taxes, but this is of relatively small importance. But public service corporations, the large manufacturing and mercantile establishments and most of all owners of intangible property are inadequately assessed and taxed.

One of the administrative defects of the present financial arrangements in Illinois is the absence of any official records showing the amount of taxes paid by different classes of property, to compare with other states. But estimates for state revenue show that the total amount paid to the state by corporations in Illinois is not only less than a third of that in New York and less than a fifth of that in Pennsylvania, but is a smaller amount (in one case less than a half) of that paid by corporations in the much less populous and less wealthy states of Massachusetts, Connecticut, New Jersey, Ohio, Michigan, and Wisconsin. On the other hand corporations perhaps pay more in local taxes in Illinois than in other states; but the amount of such taxes or the total taxes paid by corporations cannot be stated, except for railroads. The total property taxes levied on railroads in Illinois in 1910 was $6,267,826, which was 3.35 per cent of the equalized assessed valuation. The average rate of taxation on all property in the state for the same year was 3.85. If the Wisconsin and Michigan methods of taxing railroads at the average rate of taxes on other property was followed in Illinois, the railroads would have paid about one-seventh (about $900,000) more on the valuation assessed. Taxes levied on railroad property in Illinois amounted to 3.3 per cent of the gross earnings in Illinois, as reported to the state railroad
and warehouse commission, which is a smaller proportion than the gross earnings tax imposed in some states. On the basis of taxes per mile of line, the railroads in Illinois pay, not only much less than in states like New York and Massachusetts (as might be expected) but less than in any of the other states of the old Northwest Territory.

With the capital stock assessments, public utility companies other than railroads are taxed relatively more than manufacturing and mercantile corporations. Yet even in the case of the Chicago companies which are most heavily assessed, the taxable value appears to be on no higher a basis than farm lands, and considerably lower than that of improved town and city lots.

In addition to the efforts of private individuals and associations, there have been several official reports on taxation problems in Illinois, with definite proposals for important changes. But thus far none of these have led to any far-reaching reforms.

A commission, appointed in 1885, to amend and revise the revenue law, reported a year later. This report pointed out as the principal defects of the revenue system: the gross inequality and low rate of assessments, the arbitrary operation of the system of equalizing county valuations, the high rate of taxation, and the want of a central and efficient supervision of administration. This commission recommended the separation of state and local revenues, new methods for taxing corporations and for assessing personal property, and a more centralized system of administration, with county assessors and boards of review in place of town assessors, and a small state tax commission. No action seems to have been taken on this report at the time; and the only recommendation which has since been adopted has been for the establishment of county boards of review.

In 1894 the state bureau of labor statistics made a detailed investigation of tax administration and published an extended report, which emphasized the failure to assess and tax personal property. Governor Altgeld followed this with efforts to secure the abolition of the state board of equalization and the creation of a more effective central authority. But again there were no direct results secured.
A special tax commission authorized by the general assembly in 1909, made a further study of taxation conditions. Its report, submitted in January, 1911, pointed out as the principal defects of the existing system: the undervaluations and inequalities in the assessment of property, especially the notorious evasion in the assessment of intangible personal property; and defects in administration, both by the local assessors and the lack of an efficient system of state super-

vision.

First among the recommendations of this commission was a proposed amendment to the state constitution to free the general assembly from the present restrictions so far as concerns personal property. This proposal would not of itself change the present system; but it would permit the classification of personal property, and the adoption of special taxes on mortgages, intangible personalty and corporations and the exemption of some classes of personal property. This amend-
ment would not however permit some of the newer changes in taxation now being urged, such as the income tax, the taxation of unearned increment or the partial or complete ex-
emption of improvements on real estate.

Certain administrative reforms were also recommended, similar to those of the revenue commission of 1886. These were the substitution of county for town assessors, and the creation of a permanent tax commission to take the place of the state board of equalization and with added powers of investigation and supervision over the local administration of the revenue laws,—as now established in about half of the states.

These recommendations were endorsed by Governor Deneen, and bills to carry them out were introduced in the general assembly of 1911. But none of the proposed reforms were adopted.

In his inaugural message to the general assembly of 1913, Governor Dunne urged the abolition of the state board of equalization and the establishment of a state tax commission. A bill for this purpose passed the house of representatives, though the powers of the commission were materially re-
duced from those recommended two years before. But even
this measure failed in the senate. The proposed constitutional amendment was also reintroduced; but again failed to pass either house.

Opposition to the administrative reforms comes from those who fear a vigorous attempt at a literal enforcement of the present law; and who urge that these changes should wait until the constitution is amended to permit classification and other methods of taxing corporations and personal property. Yet a more efficient administration would materially improve the situation, and also strengthen the demand for needed constitutional changes.

The most active opposition to the proposed constitutional amendment has come from those urging other amendments, and especially from the advocates of the initiative and referendum. This is due to the provisions of the present constitution limiting the submission of proposed amendments to one article at a time. For two legislative sessions, the antagonism of the supporters of rival amendments has resulted in a deadlock, which seems likely to continue until an agreement can be reached to call a convention for a general revision of the state constitution. But the taxation amendment in question is also opposed by those who fear it will be used simply to do away with the present system of capital stock assessments without substituting anything else. Many of these opponents also favor a more radical change in the constitutional provisions, so as to open the way for some of the newer methods of taxation.

What the outcome of this situation will be, it is by no means easy to prophesy. The immediate outlook is not promising. Yet the dissatisfaction with the present intolerable conditions is growing stronger; and the critical point may be reached sooner than now seems probable. There is now some active discussion in favor of a constitutional convention; and this may bring an opportunity for taxation reform.
IS LESS TAXATION PRACTICABLE?

ADELBERT MOOT
Buffalo, N. Y.

Taxes, local, state and national, are increasing so fast that it is time the taxpayers everywhere considered calling a halt. Are all these taxes really necessary? Is it really necessary that we enact laws adding any tax that we can find has been in existence elsewhere centuries ago, or at the present time? Should our study be to see how easy we can make the tax to shoulders already burdened, or should we study to see where we can omit taxes from shoulders already over-burdened? When taxes are discussed, they are usually discussed from the standpoint of equality or inequality, rarely from the standpoint of being an unnecessary burden upon the taxpayer. Sometimes a public man, angry or disappointed, says that millions or tens of millions can be saved to the taxpayers by better government, but usually the public man is busy speaking and voting for more taxes, and then equally busy in trying to get a larger share of the collected taxes for himself or his constituents.

It is a long time since we have had a Cleveland to cry out against unnecessary extravagance in public affairs. It is a long time since such a man has made a sturdy fight for strict economy, to the disgust of his own party workers. Such leaders as Cleveland seem to have gone out of commission. Instead, in all parties, leaders are too plentiful who promise anything, from free bread to pensions, as they did in the days of decaying Rome, if only such promises may bring votes or public support for high office. Of course such leaders are perfectly willing to promise anything at the expense of the taxpayers, and are perfectly willing to make their promises good, if they can add some indirect tax that the taxpayer will not notice, so that they can make good such
promises, however ridiculous they may be, at the expense of the taxpayer.

Are these statements and questions warranted? I do not propose to weary you with detailed statistics to support them, but I will briefly sketch a few of the considerations that show to me very clearly that our citizens are unjustly over-taxed in national, state and local affairs; considerations that show me the taxpayers should give more consideration to needless taxes, more consideration to faithless or incompetent leaders and officials of all parties in many offices.

Take our national expenditures, and what do we see? Not many years ago, a Congress that appropriated a billion dollars during a two year term, was considered a Congress so extravagant that no defense could be made for it, but now a Congress that would keep our national expenditures for two years within a billion dollars, would be considered extraordinarily economical. In fact, it is argued that it is impossible for any Congress now to keep the expenditures of this country down to five hundred million dollars a year. What has caused the rapid and enormous additions to the national expenditures that have made it necessary to increase national taxes in every direction? It is not necessary to look far to find the answer to this question.

Without going through all of the national expenditures, it is sufficient to say that hundreds of millions of dollars have been wasted in the last fifty years by river and harbor appropriations which should never have been made. At one time, $200,000, or more, was sunk in a worthless harbor at Dunkirk, and I might go through with the illustrations in our own vicinity to show that this Dunkirk appropriation is no isolated case of an absolute waste of the taxpayers' money.

In many respects, the Federal Government is honestly and efficiently administered by all parties, and most of its departments are admirably managed, but great savings can be made in other departments of the government. Other nations do not leave it to every member of Congress to reach an appropriation committee and get something in for its constituents if he can, but, instead, for a long period of time most well administered governments have had a national
budget, made up on a scientific and an economical basis, for
the purpose of saving such extravagance as I have specified,
and for the purpose of saving the taxpayers' money. Ob-
viously, the members of Congress hate to forego the privilege
of dipping their own particular spoons into the national
treasury, for their own particular constituents, but the tax-
payers must rise up and insist that this nation adopt the
budget plan for making appropriations, that we may know in
advance just what moneys must be provided by taxation
for the economical needs of the Government. With such
budgets made up long enough in advance, and then made
public, public discussion may be trusted to reach and elimi-
nate the most objectionable items and keep public expendi-
tures down to a proper level of economy.

It is now thoroughly established that the makers of all
sorts of war materials, such as clothing, provisions, guns,
and powder, and the builders of fortifications and war vessels,
who make or build for the profit they make by manufactur-
ing or building, advertise quite as much and quite as cleverly
as do the other business interests at the present time. There
is a great war scare, and we are told this country is to have
a war with Japan, or Germany is to have a war with France
or England, and then all the professional gentlemen who are
in the army or navy have the shivers and are perfectly sure
the country will be wiped off the map unless there is a large
increase in the army or navy; at any rate, unless there is a
large increase in guns and powder, forts and warships. As
the result of this sort of thing, and hired lobbies about the
legislative halls, warships are authorized, fortifications are
authorized, preparations for war are authorized, and in
Europe large additions to the army are authorized. Of
course such things are expensive, very expensive, and then
new inventions soon render the preparations useless. In ten
years' time, a white squadron is worthless for actual war.
In fifteen years' time, the fleet that was thought to amount
to something in the Spanish American war has disappeared,
and the Oregon is being towed to some port where she may be
viewed as a mere historical monument of what occurred in the
past. Dreadnaughts come in to make other war vessels out
of date, and then armored cruisers come in to make dreadnoughts out of date. Aeroplanes and dynamite come in, submarine boats and improved torpedoes come in, and then experts begin to discuss the question of whether or not any war vessel, any fortification, is of much value, or much worth while.

What shall this country do? No country of any considerable size can attack it without crossing a large expanse of water to make the attack. Washington was a soldier and believed in a trained militia, but the expenditures of his time, under his advice, to protect a rapidly growing country that needed protection much more than our powerful country of to-day, were about one million a year, or eight millions for the eight years he was president. Of course that amount would go further than it will to-day, and of course relatively the country to-day must spend more money than that for the same relative protection of many seaports upon two oceans. Of course the most strenuous enemy of war, if he remains sane, must still admit that until other nations are more sensible about war, we must have some army, some navy, some preparation for maintaining domestic peace, and for repelling foreign aggression.

But admitting all this, do we need to spend as much on vessels to become obsolete, upon forts and guns that become obsolete, as we are now spending? As it is, we are not spending anything like enough to have an army that is any match whatever for that of Germany, of France, or England, or any great nation. We are not spending enough to have an army that would amount to anything as against the army of Japan if war were to be declared tomorrow. Our navy is more adequate, but even here the necessity of having a navy in two oceans, if we are to protect our seacoast adequately, means that we must have a much greater navy than we have, to be able to repel Japan from one side, while still retaining vessels enough in the Atlantic Ocean to be prepared for aggression there at the same time. The argument in favor of more war vessels, on the theory that we must have as many war vessels as other nations, is overwhelming, but must we have as many war vessels as other nations? Is it wise to be prepared for
war with other nations? Is it necessary to be prepared for
war with other nations? Is there any remedy except a large
army and a large navy, an army and navy as large as any
that can be brought against us, that will be an adequate
remedy in the judgment of the professional gentlemen in the
army and navy who make these arguments? Such profes-
sional gentlemen see no answer except war vessels, and then
more war vessels; an army and then a larger army; guns and
forts, and then more guns and more forts; modern vessels
and modern forts, and then more modern vessels and more
modern forts. What an answer to them is our Canadian
boundary of thousands of miles, our great lakes and rivers,
with no preparations for war, no soldiers, no sailors, no forts,
no war vessels, and a century of peace.

But there is a remedy, an adequate remedy, a simple
remedy, a feasible remedy, an honorable remedy, for all this
war hysteria, that does not involve all this unnecessary na-
tional taxation. When Secretary Olney negotiated an arbi-
tration treaty with Great Britain, that treaty would have
provided such a remedy. That treaty was defeated, for poli-
tical and other reasons unworthy of the men who defeated it,
but the cause of international arbitration made headway in
spite of that defeat. Because that cause made headway, Secre-
try Root was able to negotiate some fifteen treaties of
arbitration with various nations, that went a good way to-
ward making war with any of them a remote possibility.
Some of those treaties, however, were limited to a short period
of years, and, therefore, it became necessary to negotiate
other arbitration treaties to take their place when they should
expire by limitation. The cause of international arbitration
had made such headway that Secretary Knox was able to
negotiate still better treaties of arbitration with Great Britain
and France, treaties of arbitration that would have been per-
manent, that would have made war impossible until there
was a thorough investigation of the cause of difference, and
that would have made war impossible then by referring that
difference to a proper tribunal for arbitration.

Again, for political reasons and other reasons unworthy of
them, small-minded Senators defeated these treaties of arbi-
tration, but the cause of arbitration has made headway just the same. Sooner or later, the taxpayers of this nation, understanding this question, will insist that such treaties shall be made, that arbitration may take the place of war. They will insist that the hundreds of millions now being expended in preparation for war, shall be no longer taken from them by taxation, but, instead, that our army and navy shall be reduced to the smallest possible peace basis, and the taxpayers shall be allowed to enjoy their own money for their own purposes, rather than be compelled to pay it over to the government in preparation for remote if not impossible wars, that selfish contractors and manufacturers may receive a large percentage of it in profits.

How much is it practicable to save to the taxpayers of the country in this way, by substituting arbitration treaties in the place of war as a means for adjusting national differences? The expenditures of this country upon its army and navy in 1891 were substantially sixty-seven millions of dollars. Twenty years later, the expenses of this country for its army and navy were substantially two hundred and eighty-three millions of dollars.

In the light of these figures, is it not clear that we could maintain a sufficient army and navy for all these purposes, if we had arbitration treaties, and save substantially two hundred millions of dollars a year to the taxpayers of this country?

Is arbitration at the Hague, or elsewhere, a feasible remedy? Surely it is. In spite of having no adequate arbitration treaties, we have so settled our international disputes with Great Britain for a century, and certainly if we had such a treaty with each of the great nations, calling for inquiry first and arbitration afterwards, if necessary, we could settle our disputes with them without war. Not long ago at Christiana, Mr. Roosevelt said:

"Granted sincerity of purpose, the great powers of the world should find no insurmountable difficulty in reaching an agreement which would put an end to the present costly and growing extravagance of expenditure on naval armaments."

President Taft and Secretary Knox saw that this was
true, and personal pique or ambition should not have caused the defeat of the treaties negotiated by Secretary Knox, upon mere quibbles.

By substituting arbitration for war, would we not do something in the interest of all our citizens? Would we not force rash, despotic, impulsive and unwise presidents and congresses to keep level heads, just because we are not prepared to go to war at any minute? Is it not a bad thing for a democracy to be prepared to go to war with other nations at any minute? We get excited too quickly. We make war too quickly. For instance, the orders in council, over which this country went to war with Great Britain in 1812, were nullified several days before we declared war, and if we had been more patient then, we would have found it out before war was declared; to-day we would have known it by cable.

Many of our expensive Indian wars in those days were the result of our own greed and injustice toward the Indians. Every one who has studied the history of the subject knows that our war with Mexico was an unjust war. Probably the Civil War was inevitable, because of the ability and greed of southern slaveholders and the incapacity and lack of courage of northern statesmen for a long term of years. The war with Spain, however, was an unnecessary one, because it is now well known our differences with Spain would have been properly and honorably adjusted by diplomacy, had President McKinley been able to stay the newspaper hubbub and the hot heads in Congress for possibly not more than two weeks longer.

We thus see that probably the only wars we have engaged in that could not have been easily averted were the Revolutionary War and the Civil War, and even those wars were entirely unnecessary, had reason, fair play, justice, and statesmanship been sufficiently in evidence. Benjamin Franklin's remark that he never knew of a good war, or a bad peace, is the essence of wisdom on this subject.

The negative side of national taxation is not the only side of that subject. This country has practically given away tens of billions of dollars worth of property to individuals and to corporations, property consisting of rich agricultural
lands, forests and mines, that might have been conserved in the interests of the people so as to have paid a princely revenue to the government, saved taxpayers from taxation to that extent, and yet permitted of ample development for all willing to develop such property upon reasonable terms.

We even see head-lines in interested newspapers, backed up by articles the substance of which is that the forests and the mines of Alaska, or of our Rocky Mountain and Pacific states, can only be developed if this government shall practically give the forests and the mines of vast empires to individuals or corporations possessing millions of dollars of capital, that they may develop such forests or mines solely for their own use and benefit. But what gain to this country, or the people of this country, is there if this nation practically gives away such boundless riches, such magnificent empires, just to see them developed by millionaires who do not need the profits to be obtained by their development? Is it really necessary to practically give such untold riches away, in order to have forests or mines properly developed? Not at all. For a hundred years or more, cities and nations in Europe have been receiving large incomes from mines or forests owned by them, which they permit others to work under leases that return splendid royalties to the cities or nations owning them, and yet permit of scientific and ample development along the most scientific and practical lines of development.

But we do not need to go to Europe for examples of such development. Stephen Girard bought supposedly worthless lands, in which was more or less hard coal, for which there was then no demand, for a dollar an acre, and now his estate leases such coal lands to some of the great coal companies or railways that have the right to mine coal upon royalties that have made the Girard estate worth tens of millions of dollars, and have enabled that estate to maintain Girard College for orphan boys, and constantly support and educate some fifteen hundred orphan boys, while still accumulating money to be permanently invested in improved real property as a part of that estate.

Now if the trustees of an estate can lease coal lands and have them developed in this manner, and thereby derive a
princely revenue from their development, is there any sound reason why the United States Government cannot lease thousands of acres of valuable coal lands in Alaska, in like manner, to those who wish to develop mines, and therefrom derive a like princely income from such leases, to the great relief of its taxpayers?

This discussion of national taxation is not beside the mark, because we are rapidly reaching the point where the National Government is taking to itself sources of taxation that ought to be left to the states. Our expenditures are increasing so rapidly that it is beginning to tax the ingenuity of men to find untaxed individuals or property that can be taxed to meet the growing and ever-continuing demands of the taxeaters.

I do not mean to pass state taxation in silence. The state governments, generally speaking, are not administered with the ability and efficiency of the National Government. Some of the state governments, like that in Wisconsin, are putting into operation scientific methods that command our attention and admiration, but others, like the State of New York, have been going from bad to worse.

There are two reasons for excessive state taxation. One reason is the antiquated and inefficient governmental system of most states, and the other is downright political dishonesty, and sometimes wholesale stealing.

Assuming that the states are honestly governed, most of them, like New York, have an inefficient organization. The state should give its governor a reasonably large salary, and should give him the power to appoint and remove the secretary of state, comptroller, attorney general, and all other heads of executive departments. These heads of departments, in turn, should have the right to appoint their deputies, but all other persons in the various departments should be selected from a civil service list, and not from a political list because of political domination.

The state should provide for a board of estimate, to make up and publish the proposed annual budget a considerable period of time before the meeting of the next legislature. The legislature should have the power to vote, or refuse to vote, the items of that budget, but should have no power to
increase or add items unless it does so upon an emergency message of the governor. No money should be paid out by the state except upon the audit of the comptroller’s office.

Of course this is not the form of state government that generally prevails, although experienced public men from time to time have advocated similar changes in our state governments. Instead, the prevailing form of state government has been in operation for nearly a century, and where it is in operation, the larger and the richer the state, the worse its results. For instance, take New York as an illustration of these results, and see what we have.

Every member of assembly from each locality, every senator from each locality, thinks it his duty to get as much public money, in other words, as much of the taxpayers’ money, as he can, appropriated for some purpose in his district. If any influential politician or person in his district wants public money appropriated, he goes to the assemblyman and senator and interests them, if possible, in procuring the appropriation. The assemblyman, in turn, uses all the influence he possesses to log-roll this particular appropriation through, in return for helping other members log-roll their appropriations through. This is the same pernicious system that has log-rolled outrageous river and harbor appropriations through congress, and the same pernicious system that gives rise to like results in the legislatures of the various states. It is a system that ought to be done away with by providing, by constitutional amendment, if necessary, for some proper method of making up the proposed annual budget each year, and making it public long enough before congress or the state legislature meets, to provoke public discussion and criticism. Let congress and the legislature have full power to strike out, or cut down, any item, but let no legislative body have power to increase any item except under an emergency message from the Chief Executive. If this were done, no one can doubt the enormous saving that would result to the tax-payers. As it is, even assuming a reasonable amount of experience and honesty on the part of the appropriation committee, the amount of work to be done in a short period of time is so great that it is impossible for these com-
mittees to discover all the incompetence, lying and fraud at the bottom of all of the requests for appropriations. That this is no mere guess, may be readily seen by looking at the record of the last year of the administration of Governor Hughes in New York.

It is well known everywhere that Governor Hughes was an efficient and an economical chief executive. He was responsible for a great deal of sound legislation. He did what he could to administer the affairs of the state with efficiency and economy. To do this, he often had to fight the political machine of his own party in alliance with the political machine of the other party. Such political machines become strong in proportion as a large amount of taxpayers' money is expended to their enrichment in places or power, hence such machines are naturally opposed to governors like Governor Folk in Missouri, Governor Johnson in Minnesota, or Governor Hughes in New York.

Now if we want to know what was appropriated during the last year Governor Hughes was in office, we must read chapters 508, 509, 510, 511, 512, and 513 of the Laws of 1910, comprising 175 closely printed pages of figures, involving tens of millions of dollars, in almost countless items of expenditure, such as $450 for a new piano for the Blind at Batavia; $150 for a hand ambulance in the Soldiers and Sailors' Home at Bath; $500 for cement for walks on the new campus at the State Reformatory for Women at Bedford; $500 for the rent of a coal trestle and yard at the Reformatory at Elmira; $200 for library books at the New York Training School for Girls at Hudson; $2,000 for organ at the Catholic Chapel at the Industrial School at Industry; $300 for changing the second floor of the hospital of the Thomas Indian School at Iroquois; $1,000 for completing the water supply at the Reformatory at Napanoch; $500 for care of ground of the Woman's Relief Corps Home at Oxford; $10,000 for the House of Refuge at Randall's Island; $3,000 for repairs of the Hospital for Tuberculosis at Raybrook; $5,000 for improvements in Sewage system at Rome Custodial Asylum; $40,000 for a dormitory for Craig Colony of Epileptics at Sonyea; $13,000 for electric wiring and re-
construction in the State Institution for Feeble Minded Children at Syracuse; $1500 for repairs and equipment for Crippled and Deformed Children's Hospital at West Haverstraw; $2250 for enlarging the electrical plant and repairing the same at Sing Sing Prison; $10,000 for shop building at Auburn Prison; $1500 for floor and stairways at Clinton Prison; $1,000 for plumbing at Matteawan State Hospital; $15,000 for shop building and warehouse at Dannemora State Hospital; $7,000 for a dairy building and deepening well at the Agricultural School at Canton; $15,000 for a Superintendent's residence at Letchworth Village; and other appropriations for the same and like institutions, too numerous to mention.

I have only picked out a few items of the appropriations for these institutions, just to show how impossible it is for a committee of the legislature, hundreds of miles away in most instances, to properly pass on the amount that should be appropriated for such purposes, for such institutions.

Of course the ordinary appropriations for the various executive, legislative and judicial offices of the state are well known, but such offices have a way of adding clerks and employees, with or without authority of law, and then getting appropriations to cover such employees, and thus quartering additional political employees upon the state government, that results in constantly increasing the expenses of their offices, unless somebody is watching to see that they practice rigid economy. If instead of being interested in promoting economy in these offices, the members of the legislature are apparently with each other and are helping each other to get appropriations through for officers with whom they are friendly, it is easy to see why the appropriations grow as rapidly as they do and why it takes 175 printed pages to cover the appropriations in a single year, even under an economical administration like that of Governor Hughes, where the governor does his best to cut out and veto vicious items, and where, in fact, the governor did cut out and veto vicious items amounting to hundreds of thousands, if not millions, of dollars, to say nothing about the items he prevented going in, because it was known that large unfounded appropriations would not escape his eye.
It may be remembered by some that because of the Public Service Commissions and other bodies for which Governor Hughes was responsible, also because the state took over the support of many institutions under his administration, the expenses of his administration were greater than his predecessors', although generally speaking they cost the taxpayers less for the same thing. The result of the apparent increase in the expenses of his administration, was severe criticism by his political adversaries.

But have those political adversaries reduced the burdens of taxpayers? Not at all. On the contrary, they have greatly increased them. They have not increased them as much as they tried to, but they have done pretty well at it. The present legislature has not adjourned, or finished its appropriations, but as far as I can learn, down to August of this year they had apparently added $7,408,787.88 to the burdens of the taxpayers, as compared with the last year of Governor Hughes's administration.

Nor is this all; for one of Governor Sulzer's chief offenses was that he appointed a very able committee of inquiry, which probed the proposed appropriations to the bottom, and exposed a great many extravagant appropriations; appropriations so extravagant that they ought to be characterized as plain steals.

For instance, it was proposed to have $63,817,123.94 appropriated, but the Committee of Inquiry, after getting at the merits of the proposed appropriations, reported that they could see no ground for appropriating more than $41,110,334.51, and the committee printed a report of 88 pages, besides the appendices, to show why it thought the appropriations should not exceed the amount specified. As near as I can ascertain, some millions were added to the amount the Committee of Inquiry thought ought to be appropriated, although Governor Sulzer cut out an enormous amount, vetoed appropriations amounting to an enormous sum, and even then, as I have stated, the increase over Governor Hughes's last year was almost seven and one-half million dollars.

Nor is it right that a good deal of this money is required to support state institutions where the state has practically
no control over the expenditure of the money appropriated. For instance, the governor appoints managers for fourteen hospitals for the insane, twenty-one institutions under the charge of the State Board of Charities, and eleven institutions for the care of the blind, deaf and dumb, and these institutions collectively for 1912 cost the taxpayers of the state over seventeen millions of dollars, which moneys were expended substantially as the various boards of managers, or their employees, saw fit to expend them.

But worse than this; this state has made provision for expending one hundred millions of dollars upon its highways. During Governor Hughes’s term, an admirable law to govern these expenditures was enacted, and a splendid commission was appointed to see that the highways were properly and economically constructed. Notwithstanding the admirable record of this commission, interested contractors made a great hue and cry against it, for obvious reasons, politicians reinforced that hue and cry, and that commission was legislated out of office for the purpose of putting another in that would be more subservient to contractors and politicians. The result of this change has been appalling. While one of the most efficient members of the old commission is now serving another state as its superintendent in building splendid highways, this state has been watched for nearly a year, to ascertain whether a large amount of its moneys has been wasted or stolen, or both. In almost any locality, interested taxpayers may find highways that have been constructed by political contractors who have boldly substituted inferior materials for better materials required, and who have not even pretended to put in the amount of inferior material they should, where superior materials were required. To begin with, the specifications for these highways were most generous in their concessions to political contractors, and they should have been required to at least comply with their requirements. Enormous fortunes have been made in building or repairing highways, for often a highway built one year has cost more for repairs a year or two afterwards than it cost to build it in the beginning.

I will not go through the sickening story of extravagance
or actual stealing of the taxpayers' money, but let me give two items specified by this Democratic Committee of Inquiry as the result of their investigations. In one case, a contract in Erie County was let on competitive bidding for $16,000, but by some unexplained changes in that contract, or otherwise, a contractor finally obtained $41,676.81 from the state upon that contract.

In another case, in Warren County, a road built in 1908, for $50,000, was repaired in 1910 for $5,000, and cost $50,000 for repairs in 1912.

In such ways as this, about thirty-six millions of dollars of the taxpayers' money have been expended upon highways previous to this year. How much more was expended in the same way, by the same people, before the change took place that put Mr. John N. Carlisle and his efficient assistants in power, I cannot state, but if that change had not taken place, it would not have taken the same contractors and politicians long to spend the balance of the one hundred million, and the state would have soon had nothing but wrecks of highways to show for its expenditure.

The next great burden of the taxpayer is the burden of the taxpayer who lives in the city. He, too, suffers, in most cases, from an archaic system of government. That system of government is usually more than a half century old in form, and just about as inefficient and little up to date as a piece of farm machinery would be that was as old. A mayor, numerous heads of numerous departments, a board of aldermen elected by wards, and countless deputies and employees, more or less the selections of politicians as reward for public services, will describe the average city government. In these governments, the mayor has no sufficient power, even if he is an able, public spirited man, and the result is that the heads of various departments elected on the same ticket with him for political reasons are able to defy him and do the bidding of their political creators.

The result of such a system of government is that in time the departments become more or less stuffed with old political soldiers who have been crippled in political wars and are being practically pensioned by the taxpayers at the instance of political bosses.
As aldermen are elected by wards, in most cases the alderman, if a ward politician, as he is likely to be, has numerous contractors who build sidewalks or clean sidewalks, or do something else at the expense of local taxpayers, and the alderman does what he can for these contractors, because they live in his ward and do what they can for him in return for getting jobs for them.

Here again, the premium is on log-rolling, is on using the taxpayers’ money as a pension fund in the alderman’s political business. The result is, the longer the alderman stays in power, the more he costs the city, and the more difficult it is for the taxpayers to get the alderman out of such a position. It is natural for such aldermen to combine with each other and help each other out.

But all such aldermanic log-rolling is very expensive to the taxpayers. If the city has a Board of Public Works, and is a large city, experienced contractors soon get the inside track, and their experience and capital put them in a position where small independent contractors are afraid of them, if they seem to be on friendly terms with the Board of Public Works. It is difficult, therefore, for the city to get responsible competitive bids, if it advertises for bids, and if it does get such bids, it will frequently find that the experienced contractor has bought out the bidder, or the bidder has found it so difficult to comply with the requirements of the Board of Public Works that he has thrown up his contract and the Board of Public Works is under the apparent necessity of advertising the work over again.

Of course if all goes well and the contractor makes money rapidly, he naturally desires to see the Board of Public Works continued in office, and he contributes liberally to the campaign fund for that purpose, and the result very likely is his desire is gratified.

Things may run this way for years, until a city like Buffalo wakes up to find it is almost at the limit of its power to borrow money, or even build necessary school-houses, because, forsooth, it may have sunk many millions of dollars in an unnecessary tunnel and pump-house, only to see its pump house fall down on a beautiful summer’s day before it is even completed.
What is the remedy for such things? Is it to spend long periods of time studying new methods of taxation, or is it to provide more efficient means of government, that will cut out such golden opportunities for politicians and contractors? Is the remedy a commission form of government? That form of government has worked well in the smaller cities, but the danger of that form of government is that a commission of several men will ultimately divide into factions, and the result will be disadvantageous to the city; in fact, such cases have already occurred.

A more efficient form of city government, I believe, is one something like that which the city of Boston possesses. Let a mayor have ample power; let him appoint heads of the departments; let them appoint their deputies; let the deputies select their employees from the civil service list, and then let those people do an honest day’s work for an honest day’s pay. Let a board of estimate prepare a city budget, a sufficient time in advance to enable it to be made public, and to permit discussion of it, before it is submitted to the city council for consideration. Cut out all boards of aldermen, because of the pernicious ward system of politicians they foster, and elect a city council as we elect the city council in Buffalo, three at a time each year for a three years’ term. Let the city council be the board of directors of a business corporation, so to speak, and let the mayor be its president, and let the heads of the departments be his lieutenants or superintendents, and then you have centered responsibility in a simple, efficient city government, that can act quickly and efficiently.

City indebtedness and state indebtedness are increasing so fast, and national taxation is increasing so rapidly, that taxpayers must open their eyes and begin a vigorous fight against all parties and all political leaders, to cut out enormous sums of needless taxation. It is only in this way that we can obtain the money wherewith to do the things that ought to be done for social justice and the social betterment of people along conservative but proper lines of governmental action. We must denounce and defeat senators for their stupidity and lack of statesmanship when they defeat arbitration
IS LESS TAXATION PRACTICABLE?

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treaties such as those negotiated by Secretaries Olney and Knox for political, or senatorial, or personal reasons, that mean arbitration is not to be substituted for war as a means of settling our international disputes.

In like manner, it is apparent that we must stop unnecessary state and city taxation, by better systems of government that shall exclude politics from business, and that shall give strong men the power to give us honest, economical and efficient government.

Whether you agree with me in my general plan for bringing about beneficial changes in city, state and national government, or not, you must agree with me that we must do something to remedy the present condition of affairs, or increasing taxation will ultimately place such burdens upon the backs of taxpayers that they will be forced to do something very radical to keep from being taxed so heavily that they will be literally taxed out of house and home. The cause I represent is the cause of the small taxpayer who owns a small amount of property, and who has to deny himself and his family the very necessaries of life oftentimes, that he may pay his taxes. When he has to pay nearly three per cent a year in taxes, as he does now in this city, it requires no argument to show that he finds these taxes unnecessarily and excessively burdensome, no argument to show that he should be relieved from all unnecessary, extravagant, or dishonest taxation. He will never have to pay an income tax, but it is mighty important to him that millions of taxes shall not be imposed upon himself and thousands of other small taxpayers, where they can receive in return no earthly benefit from such taxes.
AN EQUITABLE STANDARD FOR LAND VALUATION

WALTER W. POLLOCK,
Cleveland, Ohio

SUBJECT: "The Somers System—Can a Private Appraisal Company Appropriately Be Employed to Assist Public Assessors?"

I appear at this conference of the National Tax Association to advocate the adoption of an equitable standard for the valuation of real property, for tax assessment and all other purposes; and to explain my faith in the Somers Unit System of Realty Valuation as an equitable and universal standard for such appraisal.

Incidentally, I hope to prove to every open mind among the members of this association that no imputation of impropriety may justly be laid at the door of the public assessor who shall install the Somers System, even though he shall find it expedient in that connection to employ therefor the services of the trained accountants and appraisers of "a private appraisal company." I know that there is evidence beyond power of contradiction that public assessors who have employed the Somers System have actually equalized the assessments within their districts; and that while the system does not in any way attempt to dictate taxation policies, it furnishes an intelligent and accurate basis for any policy which the assessor may determine to follow or adopt.

I do not claim for myself any special wisdom in the economics of that most confusing and unscientific phase of the administration of public affairs which is generally described under the name of "Taxation." I speak rather out of a practical and rather wide experience of sixteen years as professional appraiser. During the past four years of that experience I have given a great deal of attention to the oper-
ation of the Somers System for tax assessment purposes, and by arrangement with William A. Somers, the inventor of the System, the "private appraisal company," of which I am the head, has assisted public assessors in the cities of Columbus, Ohio; Springfield, Joliet and East St. Louis, Ill.; Denver, Col.; Houston, Beaumont, Galveston and Waco, Texas; Augusta, Ga.; Des Moines, Iowa; Lancaster, Wis.; Weston, Ontario; and Arden, Del. Mr. Somers personally assisted in the Cleveland assessment. We have made investigations of assessments, mostly non-official, in many places, among them Philadelphia, Washington, Chicago, Boston, Baltimore, Buffalo, Detroit and other cities. At the present moment the System is under installation in San Antonio and Corpus Christi, Texas; Lake Charles, La.; and Fairhope, Ala.

**System Furnishes Relief for Unspeakable Inequities**

When Mr. Somers arrived in my home city of Cleveland, four years ago, to assist the newly-elected Board of Real Property Assessors in the revision of real estate assessments for the first time in ten years, I at once appreciated the merit in his plan. To my mind it was valuable primarily because it promised relief for a situation of unspeakable inequity; and also for the further personal reason that it seemed to open up a new and honorable field for the extension of the appraisal business.

I had never heard of the Somers System until that time. I found, upon investigation, that Mr. Somers had invented it a number of years before in St. Paul; had assisted in a Cleveland investigation of assessments, described popularly as "Peter Witt's Tax School"; and he had been personally employed in the assessing departments of the cities of Chicago and New York. I found that there had been a widespread interest in the investigations of Mr. Somers, but little real appreciation of the value of the application of his theories for actual assessment work. The Chicago Board of Assessors had adopted the Somers plan of valuing units upon the central business blocks, and had worked out a system for the quick appraisal of corners, which system the assessors claimed they were using in the central business section. The Chicago as-
Assessors had also adopted a depth percentage for the measurement of inside lots, this depth percentage being at variance with all other curves of value, in giving greater value to the rear portion of the unit foot.

In New York City Mr. Somers had, as an employee of the Tax Assessment Department, prepared for publication a book of "Land Value Maps," showing street frontage values, which values had been deduced from the actual assessments of inside lots, made in more than sixty districts by district as-

![Somers Curve of Value or Depth Percentage](image)

sessors, each assessor using his individual judgment of the values of all lots in his district, including those at and near corners. The New York Department did not then, and my understanding is that it does not now, approve the application of mathematics in measuring the values of lots having more than one influence of accessibility. It has what is known as the Hoffman-Neill rule for the measurement of depths of inside lots, but denies the efficacy of corner valuation on any basis except the expression of judgment to show the enhancement to individual lots.
Somers System Proves its Practicability

For more than fifteen years Mr. Somers had been regarded as a student of land valuation of great intelligence, who could ask real estate men and tax assessors some leading questions that they found it difficult to answer. But his system so far as it was understood by the public and by taxation officials was regarded for various reasons as impracticable for actual valuation purposes. Mayor Tom L. Johnson, of Cleveland, seems to have been the only man in a place of authority in public life who had both favorable opinion and the courage to act upon such opinion. He had been fighting an archaic assessment system in Cleveland for years, and before his term of office expired after his defeat for re-election, he urged the newly-elected assessors to employ Mr. Somers as chief clerk. Thus the city of Cleveland was the first large city to adopt the use of the Somers System for assessment purposes after the development of the mathematical formulæ which Mr. Somers had by that time completed. Mr. Somers demonstrated, under conditions of stress incidental to the reassessment of the entire city within less than seven months, the entire practicability of his methods.

All work by way of assistance of public assessors since that time has been done by the Manufacturers' Appraisal Company, under an arrangement with Mr. Somers, which received the friendly approval of Mr. Johnson.

Merit Should Determine Question of Propriety

Whatever success has met my efforts in establishing a commercial appraisal business has been due to ability to furnish meritorious services to those who have required such services. If anyone had suggested any other standard upon which to base the hope for success in the direction of assisting assessors to equalize tax valuations, I should have been greatly surprised. It seemed, and still seems, inconceivable that anyone should require that I should be placed under the necessity or obligation, in a public forum or elsewhere, to defend the propriety of the employment of the services of my company. "Efficiency" is the watchword of the business world.
and it has percolated into many departments of the administration of public affairs. There is no spot in any city where there is greater need for efficiency than the assessor's office. Little, if any, progress has been made since the beginning in assessment methods. I naturally supposed there would be an instant demand for such services as my organization, with the Somers System, could supply. I had spent twelve years in building up an appraisal organization whose valuations had been accepted as the basis for the settlement of fire losses, and for mergers and financial transactions amounting to many millions of dollars. My good faith, it seemed to me, could not be questioned upon my business record.

But the mere announcement of the purpose to extend the usefulness of the Somers System developed a systematic opposition which has followed our efforts in behalf of equalization of assessments into many states and cities; which sought to discredit our work in advance; which has, by untruthful statements and a widespread propaganda, prevented many cities from enjoying equalization of assessments; which has tied up in legal actions over $50,000 in money which has been fairly earned under Somers System contracts; and which by the encouragement and consolidation of the opposition of the small percentage of public officials and property owners that in any community is really opposed to equity of assessments, has encouraged corrupt and ignorant assessors and frightened well-meaning but timid assessors into maintaining the status quo. And I have never been able to discover any reasons for this opposition that are based upon fair considerations. The work accomplished by the use of the Somers System should stand on its merits, and should be its own strong or weak defense, as the case might be, yet I find myself at this time and place required to defend a question of propriety that should have required no defense.

My answer to the question, "Can a Private Appraisal Company Appropriately be Employed to Assist Public Assessors?" is this: If a private appraisal company, or any company or individual, has the ability to supply valuable services or formulae to public assessors at reasonable cost, there should be no more limitation placed upon such employment than is
now placed upon the employment of architects to prepare plans for public buildings, engineers to advise public officials upon waterworks, sewer or park problems, or accountants to install uniform accounting and auditing system to prevent waste and fraud in the expenditure of public funds after they have reached the public treasury.

**Robbery by Public Authority Due to Lack of System**

All the waste and fraud that is possible through corrupt attacks upon public treasuries in the most careless or the most venal municipality is absurdly insignificant in amount in comparison with the public robbery that is known to exist in nearly every American community, by reason of the lack of equitable standards for the measurement of real property values, in the inequality of collecting the money into the public treasuries. No one will deny that 25 per cent is a conservative estimate of the amount of money unjustly collected in taxes in any unit of government from real estate owners. The total of all taxes annually paid by the real estate owners of the United States cannot be far from $1,000,000,000, and possibly it is much more than that large sum. But if the total should be only $500,000,000, the robbery of some owners by proportionate over-assessment, which results to the benefit of others, due to the lack of an equitable appraisal standard, is an inexcusable wrong. Any one who proposes a remedy for this wrong is entitled to be heard and to have his claims given careful examination. The public assessor, I submit, should be given every possible means for making his assessments scientifically equitable, if that is possible. Upon the equity of his work depends the justice of the entire structure upon which our municipal, township, village, county and state governments are administered. It is his duty to appraise all holdings upon a basis that will insure equity and just proportion to every property owner, and when he fails to do this the structure of government is seriously undermined. Why should the assessor not be given every opportunity to use the best possible tools that may be found, to aid him to obtain equity in tax valuations? What honest and consistent objection can be made to the principle that asses-
sors, universally acknowledged to need assistance, should be free to seek assistance wherever they can obtain it?

In my view the presumption is all in favor of the affirmative side of this question. The burden of proof as to the impropriety of the employment of a private appraisal company or any agency that will assist assessors, lies properly upon those who may hold the negative view. The sole consideration should be as to the merit of the services which a private appraisal company may be able to perform. If the operation of the Somers System has, so far as it has been adopted by public assessors, assisted even in a slight measure in the equitable solution of tax assessment problems, its use should be approved as appropriate. Condemnation should only lie upon the employment of such services when the services themselves may be fairly criticised in their methods and results.

"What is Land Value?" The Fundamental Question

I have read with some degree of care the titles of papers and addresses delivered at the several conferences of this Association. It is interesting to note that the record of your past proceedings fails to disclose adequate discussion of the question, "What is Land Value?" which I submit should underlie any intelligent study of tax assessment problems.

Is this not the essential consideration? Must we not have a clear understanding of what we are to appraise before we can pass judgment on methods of appraisal? It has been axiomatic in my commercial appraisal business that the description of a machine, or a tool, or a building to be appraised, should be technically exact; and that the initial consideration of the appraiser should be to put upon paper a clear description of the thing to be appraised, which will make it possible both to appraise it correctly, and to enable those who may have occasion to use the appraisal to judge as to the accuracy or inaccuracy of the valuation. Is there any reason why this plan should not be followed in the appraisal of land and buildings for tax assessment purposes, and is this not the most important subject to be discussed as a preliminary to any understanding of the subject of taxation of real estate?
Tides of People upon Land Measured in Land Values

In the city of Washington there is a wonderful automatic machine, by which the tides of the seas at any point on the earth may be computed for any day or hour of past or future time. It has been one of the triumphs of natural science that astronomers have been able to compute the various factors of the movements of the earth through space, so that they can be set down and recorded by this mechanical marvel in their relations to tidal movements. In the same manner Mr. Somers has, by his investigations, discovered the laws concerning the use of land by human beings under existing economic conditions, and he has invented a mathematical machine for computing the movement of the tides of humanity in their overflow of the land, so far as that movement relates to the value of land.

Mr. Somers agrees with Henry George that land value is simply community or "people" value—created and measured by the use of land by the people. Mr. George appears to have made no analytical study along the line followed by Mr. Somers as to the effect of the use of land upon its value, but he assumed that it would be possible to equitably appraise all land sites. It is clear to my mind that those who now look to the single tax to correct injustice arising under existing taxation systems, would be grievously disappointed unless the operation of the single tax should be preceded by an appraisal of all land sites by an equitable standard. This is the only way in which it is possible to fairly test any system of taxation, but especially is it true that the single tax could only be fairly initiated by the application of such a standard in the first instance, and the single tax could be justly continued only by the use of such a standard to measure increment as it should grow, and to measure decreasing land values in localities where usefulness of land may fall away.

Mr. Somers supplements the Georgean theory with the assertion that the true measure of "people" value in cities is through the streets, and, therefore, may properly be called "street value." Land value for a given site is the sum total, expressed in price, of all the influences under existing condi-
tions of life, of the people of the community in relation to that site. The street being the index of value, the Somers unit-foot was worked out for ease of use in measuring street value upon given areas. To compute the price, or the value expressed in price, of a quantity of cloth, one performs a simple problem in multiplication, using but the two factors of number of units of quantity or yards by the price per unit. Until the Somers System was invented there existed no unit or standard of quantity capable of general use, upon which to express opinion or judgment of usefulness of city land, comparable to the use of units of quantity for the measurement of the usefulness of other commodities. The acre could be and is used for large bodies of land, but was impracticable for the smaller parcels of land in cities. The "front foot" and the "square foot" are used in most places, but both are too cumbersome for exact use. The "front foot" does not have a depth that is usable. The term "square foot" as well as "front foot" requires explanation of all the circumstances connected with a site before one knows just what it means.

THE SOMERS UNIT-FOOT A UNIT OF QUANTITY

The Somers unit-foot is the yardstick or unit of quantity. The exercise of judgment is always expressed as to the value of the unit-foot, instead of as to the value of a front foot or square foot of a given lot. The unit-foot is one foot of frontage with a depth of 100 feet, representing the value of the usefulness of the block frontage due to a single element of accessibility—one street frontage. Any interior or inside lot may be measured as to its value per front foot, if of greater or less depth than 100 feet, by the Somers depth percentage, which shows the value of each foot of depths receding from the point of street accessibility. A most important point in this depth percentage is that 72½ per cent of the value of the 100 feet of depth in the unit-foot lies in the 50 feet nearest the street; consequently but 27½ per cent of the value is in the rear 50 feet; and for the third 50 feet of depth but 15 per cent of the value of the 100-foot unit is added. This rule differs from other rules accepted in the past for measuring
the value of the depth of inside lots, in the fact that it gives
greater value to the part of the unit nearest the street than
do other rules. It is based upon Mr. Somers' investigations
of many thousands of situations in many cities.

**How Assessors Use Somers System**

The first act of the assessor in the use of the Somers System
is to prepare a map showing block outlines for the central

Illustration of Location and Valuation of Somers Unit-Foot.

business district of his city. He tentatively determines the
value of the Somers unit-foot upon all block frontages in this
district, and uses these tentative unit values as the basis for
public discussions in which all citizens are invited to partici-
pate; afterwards extending his work through the entire city,
and having the benefit of the central districts for constant
comparison of judgments. Most assessors are fortunate in
securing assistance from citizens' committees, both in the
tentative and in the final stages of the decision as to the values
of units. The local newspapers are glad to print the tentative unit values, to report the discussions, and the changes in judgment brought out through the conflict of opinion.

The assessor should not permit the discussion to wander from the one question—What is the value of a Somers unit-foot upon each block frontage? Thus he eliminates the complicated questions, and confines the discussion to the value of one-street accessibility to each block. Opinions, sales and rentals may be submitted as competent but not conclusive evidences of value. A sale price is only considered as having as much weight as any other opinion, and is readily appraised as to its accuracy.

Community Consensus of Opinion Obtained

The consensus of opinion which may, under the Somers System methods, be obtained from the community, is a well-nigh infallible guide to relative and actual values. The assessor can gain little information from property owners as to the values of their holdings so long as he attempts to talk only about individual lot values. But when citizens begin to talk about street value they can and will talk intelligently. There are few persons familiar with any city who cannot tell which block frontage is the most valuable. With a map of the best business center spread before a meeting of citizens, the relative values of the different block frontages can be easily determined.

In Des Moines, Iowa, the relative values of the Somers unit-foot upon the frontages of more than 100 blocks in two separated business districts were determined by two committees of citizens, working independently, without publicly expressing the dollar value of a single frontage. The best block frontage was marked 100 per cent, and all the other frontage values were expressed in percentages of the highest block frontage value, some of them as low as 5 per cent. Comparison of the two districts was effected at a conference of the two committees, the east side, or least valuable district, highest-valued block being appraised finally at 17\(\frac{1}{2}\) per cent of the highest valued block on the west side. When all these relations of street usefulness were finally adjusted for the
RELATIVE VALUES OF STREET USEFULNESS IN DES MOINES BUSINESS CENTER.

The accompanying diagram shows the judgment of a committee of citizens of Des Moines, Iowa, of the relative usefulness of the various blocks in the central business district of that city. Walnut Street, between Sixth and Seventh, marked 100, is regarded as the most valuable block frontage, and all other numerals marked in street spaces represent judgment of percentage values of the 100 per cent frontage. The high-value frontage was appraised at $2,000 per unit-foot, and the assessment was made and reviewed, practically without change or appeal, by computation of the various lots by the Somers System.
different block frontages, and when, after public criticism, they were accepted by the public as correct, it remained for the assessor to exercise his prerogative to fix the unit values. The best opinion in Des Moines agrees that the value of a unit-foot upon Walnut Street between Sixth and Seventh is not less than $3,000. But as the Somers System was in this instance applied to only the central business sections, and as all real estate had previously been assessed in that city at a low fraction of its true value, the assessor determined to use a low percentage for the appraisal of the high unit value. His one act of appraisal was to value the highest block frontage unit at $2,000—two-thirds' value—thus making the east side value $350, and all others in proportion. And the resulting mathematical distribution of value to each lot in proportion to its size, its shape and its relation to the various elements of accessibility, has been gracefully accepted, even by the largest tax-payer, whose holdings were increased from 100 to 900 per cent over the former assessments, thus increasing his annual tax bill by over $30,000. Yet he is now answering inquiries concerning the use of the Somers System in Des Moines with favorable letters and telegrams. In the neighboring city of Ottumwa appeals have been heard in court during the past two weeks from assessments made without rule.

**Corner Enhancement Mathematically Computed**

Sites at and near corners are generally agreed to be of greater value than sites in the center of a block, away from what is called "corner influence." Under the Somers System this enhancement is computed mathematically, instead of being guessed at. The judgment of accessibility value having been first expressed as of a Somers unit-foot upon all frontages of a block, that part of the block which has but one-street accessibility is computed by the depth percentage. The land which can be thus measured has the lowest frontage value upon a block. Within approximately 100 feet of the corners the enhancement due to street intersection begins, and this enhancement is under the Somers System computed mathematically in relation to the comparative value of the intersecting street,
in combination with the size and shape of the lot, and its location to the various elements of accessibility. The corner influence sometimes does not extend 100 feet from a corner, and sometimes it extends more than 100 feet. Whatever the distance may be, it is measured, if it extends 100 feet or less, by the corner tables, and if it extends farther, by the overlap tables. If there is an alley the value of the alley accessibility to the different lots is proportioned according to the number of feet each lot abuts on the alley.

\[
\begin{array}{cccccccccc}
10 & 20 & 30 & 40 & 50 & 60 & 70 & 80 & 90 & 100 \\
9  & 19 & 29 & 39 & 49 & 59 & 69 & 79 & 89 & 99 \\
8  & 18 & 28 & 38 & 48 & 58 & 68 & 78 & 88 & 98 \\
7  & 17 & 27 & 37 & 47 & 57 & 67 & 77 & 87 & 97 \\
6  & 16 & 26 & 36 & 46 & 56 & 66 & 76 & 86 & 96 \\
5  & 15 & 25 & 35 & 45 & 55 & 65 & 75 & 85 & 95 \\
4  & 14 & 24 & 34 & 44 & 54 & 64 & 74 & 84 & 94 \\
3  & 13 & 23 & 33 & 43 & 53 & 63 & 73 & 83 & 93 \\
2  & 12 & 22 & 32 & 42 & 52 & 62 & 72 & 82 & 92 \\
1  & 11 & 21 & 31 & 41 & 51 & 61 & 71 & 81 & 91 \\
\end{array}
\]

**STREET UNIT $100 PER FRONT FOOT**

**STREET UNIT $200 PER FRONT FOOT**

Diagram for Use in Computing Lots at and Near Corners

In computing the values of the lots within the corner influence an imaginary 100-foot lot at a corner is diagrammed, and is subdivided into 100 squares, each 10 feet square. Each lot coming within the 100-foot area is drawn on the diagram in its exact location. The Somers corner tables show the value of each 10-foot square, as numbered on the diagram, for every combination of unit values, and when the value of the unit-foot has been determined upon the four block front-
ages, the lots having corner influence can be designated and appraised relatively in somewhat the same manner that the banker computes the interest upon a note from his book of interest tables. Given the factors of street accessibility value upon all frontages of a block, a lot of a certain size and shape, with a certain relation to a given corner, has a certain value. Any change, however slight, in size, shape, relation to the corner, or value of units, will, upon computation, show a difference in value, in a mathematically exact ratio. There are variations of the corner tables to apply to retail, wholesale and residence properties. There are also mechanical devices known as overlap cards and zone cards. The overlap cards are for ready computation of the point at which the receding values of two units of different values, as computed by the percentage tables, meet at the same value. The zone cards are used for easy computation of irregularly shaped lots.

Small Percentage of Tax-payers Really Unfair

Every community has not to exceed 2 per cent of taxpayers who will take advantage of their neighbors if given an opportunity in the matter of tax-assessments. The other 98 percent are not only willing, but glad, as well, to pay their proportionate share of taxes if they are assured that everyone will be treated fairly and equitably, and on exactly the same basis. The Somers methods of obtaining community opinion and of complete publicity in the making of assessments at all stages of judgment and computation give the most complete assurance of fairness and equity. The 2 per cent hesitate to display in public an unfair spirit towards the 98 per cent, which they might be willing to display to the assessor only, and those who have in the past obtained special advantages through the ignorance or favoritism of the assessors, are compelled by the force of public opinion and the logic of mathematical computation to bow to the opinion of the majority. Under the Somers System there is realized the ideal fought for by our forefathers of real representation in taxation, and the result is an approximation of exact equity in assessment, and the opportunity to impose a level tax upon level and equal, instead of irregular and unequal assessment values.
System May be Used for an Entire State

The Somers System is adapted to universal use throughout a state or district having one or more assessors. State Tax Commissions, if given the power to promulgate rules under which all assessors should express their judgments in the same manner, could enforce uniformity of methods of expression of judgment. This does not mean that all assessors will have the same judgment, or that such rules would interfere with the expression of such judgment, but if all assessors should express their judgments by the Somers methods, fortified by community opinion in each locality, and computed by the Somers mathematical tables, the result would be uniform and equitable tax valuations, not only in a given city, but throughout all cities in a state.

For rural assessments the same analytical methods can be applied. Each farm should be diagrammed so as to show the number of acres of each quality of land comprising it. A town meeting with these diagrams, and with comparative and actual knowledge within the territory, will easily and accurately value each kind and quality of land upon each farm, judging separately the various elements of site or location, cultivable qualities, forest or mineral products, and any other value-making elements. One farm will be more valuable per acre than another of equal soil quality, because it has better roads and a shorter haul to market, or school or church; and all such variations will be fairly judged when opportunity is given to analyze, by the consideration of each element separately. City land usually possesses only site value, while rural land has additional elements of value in the variable quality of the soil, and in the productive capacity of orchards, forests and mines. The injustice of rural tax valuations is as marked as in cities. Under the application of the Somers principles the same equity can be established in rural assessments throughout an entire state that has been established by the use of the Somers System for computing the values of sites in cities.

Systematic Methods of Appraising Buildings

While not a part of the Somers System proper, the methods
of uniformly appraising buildings in connection with a Somers System assessment are similar to the land value analysis. The first thing is to find out just what kind of a structure each building is, and the dimensions and descriptions of all buildings are after measurement and inspection transcribed upon cards. Most buildings in a city may be included within five or six classifications as to construction features. All buildings of a given class are appraised at the present cost of new reproduction per square foot of floor space at present market prices for material and labor. This is the highest possible value, and from this value depreciation is deducted for age, for mechanical deterioration, for obsolescence and for lack of utility, upon uniform schedules, which will insure equity to each property owner. Buildings that cannot be classified are especially appraised and depreciated. The new reproductive valuation of buildings comprises the inventory. The art of appraising man-made property lies in the application of depreciation. It is comparatively easy to ascertain new reproductive costs of man-made property, but it is difficult to secure agreement upon elements and amounts of depreciation.

Reasons Why Assessments are not Inequitable

The Somers System does not at any stage usurp the function of the public assessor, who is charged with responsibility for the assessment and with power to fix taxable values. But it is a splendid aid to him, first in ascertaining values of accessibility to the various blocks through the streets; second, in confirming or modifying those values by the approval of the consensus of community opinion; third, in measuring this judgment so ascertained and confirmed to the lots and parcels as now owned; fourth, in the equitable appraisal of buildings. That the assessor has not in the past done altogether creditable work, is due mainly to the lack of a system or standard of valuation, and the faults in the valuations are traceable to the following causes:

1. There is a lack of common judgment in ascertaining values.
2. There is a lack of common method of applying judgment, no matter how obtained.
3. There is no adequate basis of comparing the value of one lot with that of another; the value of one farm with that of another; the value of one city block with that of another; the value of one township with that of another; the value of one city with that of another; the value of one county with that of another; the value of one part of a state with that of another.

4. No clear idea of the origin of land value, especially in cities, exists in the minds of assessors.

5. No analysis of the factors that enter into the value of city sites is attempted.

6. While there is a general recognition of the law of comparative valuation, there is no method, or, at best, the very crudest methods, of carrying that law into effect; either by assessors, reviewing bodies or state tax commissions.

The Somers System is designed to correct these underlying faults, and so far as taxing officials have used it, it has corrected them. It has had to meet and overcome ignorance and the interest of those who have desired to maintain an inequity in assessments which operate to their benefit. But although this opposition, which might have been expected, has delayed the general acceptance of the Somers principles, and their general application, the growth of public opinion and the intelligent study of the subject by taxation officials causes the use of the Somers System to constantly increase.

**Somers System is not altogether "Secret"**

One of the points made by those who have opposed equalization of assessments by the use of the Somers System is the claim that the System is made up of "secret formulæ," that it is "patented," and that the assessor who uses the Somers System is "helpless" in future. In answer to this I will say that one who will study our printed matter will find that the Somers System is so comprehensive as to practically amount to a new science. The so-called "secret formulæ" forms a small part of this science, although a most important part for the exact operation of the science. There are many cities which have profited by the adoption of the Somers methods, and have made great improvement in the direction
of equalization of assessments thereby, without employing our services. Some assessors in such cities freely acknowledge their obligation to our printed matter and our assistance, which has been freely given, and express their sincere regret that local conditions, usually financial, have made it impossible to employ our paid services. Other assessors pursue a different policy, copying all they can copy, but making unimportant technical objections to what they declare to be wrong results of the use of the Somers System. They use all they know how to use, but fail to acknowledge their obligation to the Somers methods. Some of these assessors say the corner tables show results that are greater than true values; others that the corner computations are not high enough. Some of these assessors are sincerely mistaken, and others appear to be insincerely mistaken. But what of it? It is impossible in this world to please everybody, so why try? That the assessor, who want to equalize his tax assessments, can do so by the use of the complete Somers System, including the services of experts, has, I think, been proven beyond the possibility of question, notwithstanding the carping of doubting Thomases. I defy any assessor or person to point out any city of any considerable size where the Somers System has not been used, in whole or part, where the assessments can be shown to be even approximately equitable. And any city of medium size which once uses the Somers System can continue the use of the System in its application to the future annual revaluation of land for an additional annual cost not exceeding the salary of an average clerk.

This, I believe, is a complete answer to the "helpless" claim.

The Somers System is as accessible, except for the corner tables, as air, and as free as a new language. But it requires study to learn it, and teachers to instruct in the most approved use. When the mind of the public has reached the point where the Somers principles are generally accepted, we expect to publish the Somers corner tables. We now have in manuscript a book to be entitled "The Science and Practice of Land Valuation," which we hope to publish soon. But the present publication of the corner tables, the work of many
years of Mr. Somers' life, would be unfair to him. Any taxation official can have the use of these tables for nothing, in connection with the services of our experts. Those services would be worth their cost without the corner tables, and, as a matter of fact, no charge is made for the use of the tables. Future revisions can be made on the same basis. The cumbersome staffs of assessors in such cities as Philadelphia and New York could be greatly reduced in number, with proportionate reduction in cost, and an increase in efficiency that no percentage can illustrate, if the Somers System should be installed for assessments in those cities.

**Appraisal of Land of Railroads**

The Somers standards for the appraisal of land are not limited in use to the making of tax assessments, but may be applied for valuations for all purposes. The coming appraisal of the physical value of railroads soon to be undertaken under the direction of the Interstate Commerce Commission, is one of the most important economic events of a century, or, perhaps, of 500 years. Upon the results of that appraisal will depend the policy of the operation of the public highways of the United States for many years. This valuation is believed by many persons to mean the first step in the direction of government ownership of railroads, although Senator La Follette's purpose in urging physical valuation for so long has been stated as intended only to afford an equitable basis for service rates. But whether the appraisal shall be used simply as a basis for determining service rates, or as the basis for the purchase of the railroads by the government, it is of the highest importance that the value of the railroad land should be appraised by an equitable system under which all elements of value may be analyzed. There should be no difficulty in settling the new reproductive value of the man-made property of the railroads, and in deducting fair amounts for depreciation for mechanical deterioration, age, obsolescence and lack of utility, as called for under the new Ohio Public Utilities law. But land value is totally different in its elements. There can be no practical market value for land, because each side is an individual entity, and
cannot be duplicated, although opportunity of usefulness, as indicated by various elements of accessibility to use, may be duplicated. The application of scientific principles for the measurement of judgment of the values of the tremendously valuable sites occupied by the railroads in population centers is the only way in which it will be possible to establish "fair value" for the land of railroads for rate-making or sale purposes. Inaccurate and unscientific land valuation will make this anticipated measure of relief a greater burden, and will put the final settlement of the railroad problem many years into the future. In connection herewith is printed a map showing an appraisal of the value of the land comprising the Broad Street Passenger Terminal of the Pennsylvania Railroad Company in Philadelphia. The figures in the streets are the judgments of our own real estate appraisers of the values of the Somers unit-foot upon each block frontage. This method complies in the fullest possible measure with the declaration of Justice Hughes of the Supreme Court of the United States that the appraisal of land of railroads for rate-making purposes should be "by comparison with the value of contiguous and similar land." The value of the Pennsylvania Railroad land in these ten blocks or parts of blocks is computed at $12,287,334, but comparison is made by appraisal of the unit-foot for "contiguous and similar land" probably worth in the neighborhood of $50,000,000. I venture the assertion that this appraisal is criticism-proof except within the narrowest possible limit of variation. The dotted lines in the blocks show the areas of computation—the points where the various influences of accessibility meet. Here is a real standard for the appraisal of land of railroads, so as to show the present value. If at a future time an additional capitalization of the value of this land shall be asked, here is a standard for proof of any such claim, when accompanied with evidence of an actual increase in the value as compared with "contiguous and similar land," as expressed in valuations of the Somers unit-foot, and as computed by the Somers mathematical tables.

1 This map owing to its size could not be included here.
Appraisal of Land Values for Other Public Purposes

The State of Ohio gives the new right of excess condemnation to cities in connection with street improvements. At the request of Mayor Newton D. Baker we have recently appraised, not only the value of the land and buildings to be actually required for the proposed extensions of Carnegie Avenue, but have also placed values upon the theoretically created street frontages by the Somers plan, and computed the enhancement to each lot affected. This was a preliminary step on the part of the city of Cleveland in anticipation of the use of the excess condemnation power granted in the new home rule constitutional amendment. By the Somers publicity methods a large number of owners of property in the districts concerned have been practically assured of fair treatment, and have indicated their willingness to accept the appraised prices. It is possible by the Somers computations to make convincing comparisons for such purposes.

The city of New York is now going through an elaborate and costly court proceeding for the appropriation of four valuable blocks for new county buildings. Six leading real estate experts, each paid a fee of probably not less than $10,000 for his opinion, have appraised the property desired. Mr. Somers has analyzed these appraisals of the lots in one block, showing both amounts and the valuations of the unit-foot necessary to produce the respective appraisals. To these he has added the 1912 tax assessments, and also lot computations by the Somers tables upon the tax assessor's unit values. An examination of the jumble of conflicting opinions shown in this comparison ought to prove conclusively that an equitable standard for the valuation of real estate is a crying need in New York City.

Somers System rules were used recently for the appraisal of all the land owned by the city of Cleveland; the county of Erie (Buffalo, N. Y.); and the Board of Education of Pittsburgh. There were 132 parcels of land in Pittsburgh, and nearly 100 in Cleveland. These appraisals were made to establish book values for accounting purposes.
Chicago Somers System Commercial Service

The first use of the System for a commercial appraisal service is that under which we have very recently appraised the value of all the lots included in 137 blocks in the central business district of Chicago, in the territory bounded by Lake Michigan on the east, the Chicago River on the north and east, and Twelfth Street on the south. There are about 3,500 lots in this territory, with a total value for the land alone of nearly $700,000,000. The values of the Somers unit-foot upon the various block frontages are shown in a map which is published herewith. Each block has been drawn so as to show the dimensions of the lots comprised therein, with the values of the unit-foot upon each frontage and the computed value of each lot. Subscribers to this service will have the advantage, during the first yearly period, of a stated number of recomputations or additional computations of lots, upon unit values of their own judgment, either in this or any other district in the city of Chicago.

This is purely an experiment. We do not know just what demand exists in American cities for such a service to real estate brokers, trust companies, property owners and large corporations which lend money upon real estate security. It will undoubtedly take some years to standardize values by mathematical measurement of judgment, instead of attempting to appraise land values by crude attempts to measure usefulness by rule of thumb judgments.

Brief Summary of Somers System's Use in Various Cities

"By their fruits ye shall know them." I know that I do not exaggerate when I declare that in every place where the Somers System has been installed, it has accomplished equalization of tax assessments; it has established in the minds of taxpayers a confidence, both in the accuracy and correctness of the equalization and in the actual values. In those cities, the sales prices follow closely the tax valuations; both assessments and sales prices are in large measure standardized; and the application of scientific principles for valuation has brought about a large degree of confidence and certainty concerning real estate values that had not existed before. There
is indisputable evidence of this in the written testimony of public officials, property owners and others familiar with the Somers System installations in various cities, but I will give herewith a brief summary:

**Cleveland and Columbus, Ohio**

The city of Cleveland, Ohio, is so far the largest city to utilize the Somers System for a complete revision of real estate assessments, as it was the first after the initial use of the System in St. Paul. Realty assessments had previously been revised in Ohio but once in ten years, and the tax valuations were probably the worst to be found anywhere. The board of five assessors in Cleveland had but six months in which to completely revise the valuations of 147,000 lots and buildings. They ignored the old valuations, and undertook the work with Mr. Somers personally in charge of the technical features. While the new methods worked a revolutionary change in the way of ascertaining real estate and building values, the taxpayers welcomed the opportunity to participate for the first time in the public discussion of the values of their properties. Frederic C. Howe, the well-known writer and publicist, was one of the assessors, and in an address in Philadelphia afterwards he said that "there came to Cleveland"—as a result of the participation of the people in the assessment—"a psychological sense of ease, of satisfaction, of square dealing toward their fellows, a spirit of civic satisfaction growing out of the fact that their money was being taken from them by a square deal policy such as they had never had before."

The result of the Cleveland assessment was an increase in realty values from $142,758,000 to $550,890,160, and a proportional reduction in the tax rate. More than $100,000,000 of the increase was found in the high-valued down-town business district, some of the land of which had increased 1,000 per cent over the old assessed values. There was a conscious and open discrimination shown by the Cleveland assessors in favor of the home-owners, which the assessors estimated amounted to nearly, if not quite, $2,500,000 a year in their favor. This was accomplished by a special "district" de-
preciation upon all residence structures in addition to the depreciation applied for mechanical deterioration and for age. The heaviest district depreciation was applied in the localities in which the poorest homes were located, and the lightest district depreciations were applied where the palaces of the rich were located.

The politician or representative of special interests who would undertake to prevent the use of the Somers System for the revision of the Cleveland real property assessment to be made in 1914, would find little sympathy from any source.

The results in Columbus were similar to those in Cleveland. The Columbus assessors took a longer time to complete their work, and consequently delivered it with fewer clerical errors. The Board of Review changed the values, the insignificant total net amount of $53,000, out of over $100,000,000 of land values. The total assessment was increased approximately threefold and the tax-rate decreased in like proportion. The Board of Assessors, attempting to assess the land at full value, used depreciation schedules for buildings, which brought some of their values below what the Board of Review regarded them to be worth. But the increases of values to several thousands of such buildings, added by the Board of Review, made a total net change of less than two per cent, including the changes in land values.

**Springfield, Joliet and East St. Louis, Ill.**

Three Illinois cities employed the Somers System for the quadrennial revision of real estate assessments in 1911. These cities were Springfield, Joliet and East St. Louis. Somewhat different methods were adopted by the assessors of these cities, but the results were equally satisfactory. In Springfield, Assessor Burke Vanvil was successful in the highest degree in securing assistance from property owners. His public meetings were notable instances of ability on the part of the people to give expression to competent opinions concerning the relative and actual values of street accessibility. In East St. Louis and Joliet, committees of citizens also assisted the assessors in arriving at the values of block unit values. In Springfield there was a distinct effort on the part
of the assessor to discriminate in his method of equalization. He accomplished this by assessing the land at 75 per cent of its computed value and the buildings at 50 per cent. The result was an increase of the land assessments from $15,032,640 in 1910, to $25,789,765, and the decrease of improvement assessed values from $19,601,258 to $16,768,279. There was a net increase of $7,864,196 in the assessment.

DENVER, COL.

Following the Illinois work came the employment of the Somers System in Denver. Henry J. Arnold, afterwards elected mayor, used the System only in the central business section, comprising 110 blocks. Some properties were raised and some lowered in value; but the net result of equalizing the business district was the lowering of the assessments upon the homes of the city.

HOUSTON, TEXAS

An interested on-looker in Denver was Tax Commissioner J. J. Pastoriza, of Houston, Texas, who spent his 1911 summer vacation in study of the Somers methods, and partially adopted Somers methods that year in Houston. In 1912 he secured the approval of his fellow city commissioners for the complete adoption of the System, and the result in Houston has been widely advertised as accomplishing the seemingly impossible. Not all of the taxation changes in Houston are due to the Somers System, but the use of the System for equalizing real estate values made it possible for Tax Commissioner Pastoriza to work a revolution upon the economic side of the taxation question without starting a revolution among the taxpayers. Here are some of the things that Mr. Pastoriza claims to have accomplished:

1. Increased the amount of the assessment roll $33,000,000, notwithstanding the total exemption from assessment for the first time of household goods, stocks, bonds, mortgages, cash and credits; the assessment of land at only 70 per cent of its value; and real estate improvements, merchandise and machinery at 25 per cent.

2. Reduced the tax rate for 1912 from $1.70 to $1.50.
3. Added $2,000,000 in a new "franchise tax" upon public utilities and railroad companies for the use of the public streets.

4. Reduced the actual amount of taxes of nearly 5,000 taxpayers; increased the assessments upon many properties which had previously been assessed below true value; and discovered previously unassessed property the payment of back taxes upon which went far towards reimbursing the city for the cost of installing the Somers System; and, best of all, secured sufficient money from a satisfied constituency to pay the needed cost of conducting the city government.

Of course the Somers System has nothing to do with anything except the administrative side of the taxation question, and it is not in any sense policy-determining. Any assessor in any state or city who really wants to use the System can find authority in the present laws for its adoption, just as any assessor who does not want to use it can find laws that seem to prevent its use. An assessor who wants to obey the strict legal requirements as to equality of assessments will find in any state a set of antiquated rules that cannot possibly be followed without upsetting equality. Every assessor violates the laws at some point, because most assessment laws were made without understanding. The laws call for equality, but do not provide the proper machinery for attaining equality of assessment; and whether the assessor without a standard of valuation tries to create equity notwithstanding this fact, or tries to follow the law, he fails in both instances to bring about equity. With the Somers System to measure according to a universal standard the values of all parcels of land and all buildings thereon, a basis may be established for any policy that may be adopted by the assessor. If he wishes, and if the law allows, he may appraise the land and buildings at some fixed percentage of full value, or he may discriminate between land and buildings, assessing the two classes of property at different percentages of full value.

There are many persons who believe that constitutional and statutory changes are necessary to bring about reforms in taxation. But the fact is, that such reforms are likely to be futile unless as a preliminary to changes in taxation policy
there shall first be established a standard of valuation that will insure equality and equity, by the ascertainment of true, provable and proportional values, which can be revised in future in accordance with the same standards. All the constitutional and statutory requirements in the State of Texas are opposed to the exemptions of personal property which Mr. Pastoriza arbitrarily made. The laws of Texas do not specifically provide for the use of a universal standard of valuation, but they provide inferentially at least for equity in assessments, and equity has proven impossible of achievement in every place in Texas, as well as in other States, except those places where the Somers System has been installed. It has been found that the mere equalizing of real estate assessments will solve the majority of the taxation troubles in any community, and will provide an equitable basis for solving the remainder of such troubles if the assessor wishes to solve them under the law, or if he will undertake to solve them by public consent without specific authority of law.

Beaumont, Galveston, Waco and Corpus Christi, Texas

In Beaumont, Texas, which followed Houston in the use of the Somers System, the assessment was increased from $15,731,433, which was supposed to be 60 per cent of actual value, of $17,370,595, which was actually at 50 per cent of true value. There were 942 assessments lowered, and 286 taxpayers were found whose properties had previously escaped taxation entirely. That there were a few property owners who had been getting off very easily, is evidenced by the fact that even on the 50 per cent basis there were 63 taxpayers whose assessments were increased in the sum of $1,154,351. Some of the other results in Beaumont were:

Assessment of buildings heretofore unassessed ................. $125,120
Assessment of land heretofore unassessed ....................... 80,750
Amount of back taxes collected on heretofore unassessed property in excess of .................................................. 4,000
Assessment made for the first time of Public Service corporations for the use of the streets by application of Somers System ... 122,040
Amount added to railroad assessments for use of streets ...... 475,543

In Galveston and Waco similar results were accomplished.
At the present time the System is under installation in San Antonio, and another Texas city—Corpus Christi—has made an appropriation to pay for Somers System services.

**Augusta, Georgia**

In Augusta, Georgia, the total of real estate assessments prior to the Somers System installation, on a supposed 80 per cent basis, amounted to $20,160,374. The full value, as ascertained by the use of the System, was found to be $38,967,729. After deducting $4,555,799 of exempt property, there was an increase over 1912 of $9,211,463, after raising the supposed 80 per cent valuation to 100 per cent for purposes of comparison. This was nearly 46 per cent increase, and the decision to make the actual assessment at only two-thirds' value resulted in a substantial reduction in the tax-rate. Mayor Barrett, on retiring, declared the Somers System contract to have been one of the most important achievements of his administration.

**Des Moines, Iowa**

In Des Moines, Iowa, the System was used only in the two central business districts, comprising about 100 blocks. The assessment on a two-thirds' value basis for land resulted in an increase of $8,560,575, or 65 per cent, for land—from $13,108,925 to $21,669,500; and a decrease of $145,010, or 1 8/10 per cent, for buildings—from $7,915,540 to $7,770,530. The total increase of land and buildings of $8,415,565 amounted to 40 per cent. The Assessor's report showed the following statistics:

- Number of lots assessed: 916
- Number of buildings assessed: 1,329
- Number of assessments increased: 702
- Number of assessments decreased: 205
- Number of assessments unchanged: 9

The radical changes in assessed values were made and passed review substantially unchanged and without court appeals, while the neighboring city of Ottumwa, which increased central business property assessments without using a scien-
scientific system, is now in court, defending 88 appeals out of nearly 500 increased assessments.

Various Smaller Places

In the 1910 Ohio assessment our building appraisers assisted in the valuation of the building structures in Marion, Ohio, but did not assist in the equalization of land sites.

In Lancaster, Wis., a county-seat town of about 3,000 inhabitants, I held two meetings of property owners in the business district, each of less than an hour in length. Within that time comparisons of usefulness were made of the various block frontages on the percentage basis. There had recently been a number of sales, the prices for which were hopelessly conflicting, but the citizens easily and intelligently and conclusively talked about relative frontage values, and agreed upon the points wherein the recent sales were unreliable as guides. One sale, however, of an inside lot for an Odd Fellows' Hall, was accepted as a fair standard, and all lots in the business district were measured on the unit value deduced from that price.

The town of Weston is a suburb of Toronto, Ontario. In two evening meetings of citizens the values of units were determined and computations of lot values were computed therefrom in Cleveland. A building appraiser applied uniform factors of new reproductive and depreciated values to all the buildings in the town.

The single tax colony, known as Arden, Del., has each year, at the annual reassessment period, been the field of animated discussion over the assessments by the radical citizens who live there. One of the Somers System Accountants, who lives in Arden, as a member of the Board of Assessors, applied Somers principles for analyzing the elements which make up values, and the result was acceptance of the results without complaint.

Fairhope, Ala., another single tax colony, hopes to bring about harmony by the use of the Somers System for assessing the rental values of land, and the village authorities have signed a contract for that purpose.
Immense Injustice Due to Lack of Standard

I do not know of any place where it is possible to find statistics which show the exact amount of money levied annually for taxes upon real estate. But there is reason to believe that it will now approximate $1,000,000,000. If this amount is approximately correct, it will show the tremendous importance, in the name of simple justice, of the adoption of an equitable standard for the valuation of the real estate upon which this immense annual tribute is collected from the owners of this one kind of property. Those who know anything at all about the haphazard methods of determining taxable values which prevail everywhere, will, I believe, agree with me that not less than 25 per cent of the total is inequitably distributed. That is, those property owners whose real estate is assessed proportionately higher in value are compelled, by the imperfect administration of the assessment laws, to pay more than their share of taxes, while those whose properties are assessed at proportionately lower values, escape payment of their full shares. The theory that taxes should be levied on the basis of true and proportionate values of all property is violated everywhere because no adequate law of equitable appraisal is recognized, either by the statutes on the subject, or by assessing officials. That moss-grown judicial sophistry which undertakes to define real estate value as the amount that "a willing buyer who is not compelled to buy will pay to a willing seller who is not compelled to sell," has, in the past, given ample leeway for testimony of "experts" under which the sworn value of a given property has varied from 20 to 1500 per cent. The pet theory of some very excellent gentlemen, that it is possible to average sales prices, or to find a fundamental basis for valuation in a sale price, irrespective of the consideration of the fairness of the price itself, is responsible for some of this $250,000,000 annual public robbery. That dogma of the head of the New York City Department of Taxes and Assessments, that the value of a city lot and its improvement may be ascertained by capitalizing the income, until such time as the value of the land alone equals the former value of the lot and building combined, is
equally unsatisfactory. All of these theories are based on the mistaken idea that a given land site contains in itself elements of value independently of all other sites, or of the influences which are fundamental in affecting the values of land sites. A real estate transaction may as between the buyer and the seller be the expression of opinion of the income it may earn, but that prospective income is based upon what the parties believe the community opinion and judgment to be. The community creates the value, and the members of the community will quickly and intelligently appraise every sale price if given the opportunity to do so, thus affording the assessor a tremendous quantity of value-information he can never obtain from the sale itself. And the same may be said of rental prices, for a rental is a limited sale.

It is possible for a state tax commission to prescribe rules by which all assessors within the state shall express their judgment of values of real estate in a uniform method, and it is possible to take such judgments and compute the results mathematically. It is also possible to apply the Somers System principles to the assessment of rural property. I have here, a typical diagram of a rural township. Each farm should be diagramed to show the size of the farm, the quality of land and the number of acres of each quality of land; then after every farm in the township has been so diagramed a town meeting can easily pass judgment as to the value of each kind of land within the township. A farm with a given quality of soil that is nearer the town is worth more money because of the additional site value—because it is nearer a school, or church, or market or railroad station; and the Somers principle can be applied by analysis to rural valuations everywhere. It is an easy thing. We have never done it—we have had no opportunity to do it—but it looks very easy to do.

There is one other matter I want to call your attention to: the appraisal of the railroads of the United States. It is probably one of the most important things that has happened to us or will happen for a great many years. One controversial element in connection with the valuation of the railroad is the value of the land. Under the recent supreme
court decision in the Minnesota rate cases it has been declared that the value of the land shall be ascertained by comparison with the values of contiguous and similar lands. We have made an appraisal of some railroad land in the city of Philadelphia, and I am hoping that an opportunity will arise under which we can demonstrate that that appraisal is practically criticism-proof, except within a very narrow limit. In Ohio we now have an excess condemnation right. We have recently made an appraisal showing the enhancement to certain lots by a street opening in Cleveland and have secured virtually an acceptance from more than half of the property owners of the property values computed under the Somers System. I thank you for listening so patiently and hope that all of you will read the address in detail. I shall be glad to supply additional copies to anybody who wishes them.
DISCUSSION—THE SOMERS SYSTEM

Mr. A. C. Pleydell, of New Jersey: So far as I know, I am the first person who opposed the plans of the Manufacturers' Appraisal Company to secure assessment contracts, and the first person to criticise Mr. Somers' methods and to subject them to an analysis.

I have opposed the system and the company for two reasons, the first reason being that I thought a private company should not be employed for such purposes, and on this point I shall read briefly from a letter which I wrote three years ago when the subject of employing this company came up in Philadelphia. I see no reason for modifying any of those opinions. They are expressed more concisely than I might do it offhand.

"The assessment of property for taxation is a governmental function, which should not be contracted out to private individuals. To determine the relative values of real estate requires the exercise of judgment and discretion, and involves not merely the doing of justice between the individual property owners, but, also, the determination of the amount of their contributions to the public revenues. This is too serious and vital a matter to be turned over to contractors, however well qualified these might be to furnish a technically correct valuation.

"If assessment conditions in any city are bad, they will not be permanently corrected by bringing some one from the outside to make a valuation by a method of their own, for, in subsequent years, the same inequalities will reappear. The only way to secure good assessments is to have public officials who are capable of doing their work, and having them work out a system which can be used by them and their successors.

"I do not like the idea of any assessment officials, chosen by the people of their localities to employ their own judgment on assessment work, surrendering their independence and giving a contract to an outside company to come to the city and make valuations. If we are to have private companies administer the affairs of government by contract, we might as well quit electing public officials.

"The great importance of agitating the assessment question is to
train up the public officials, and also the people of the community, to a realization of the correct principles of valuation and taxation. Most of this result will be lost if the only outcome of an agitation is to secure the employment of private contractors to come to a city and arbitrarily place some valuations, which may or may not be correct, but even if correct, do not help educate the people.

"Merely to have assessments made equal between individuals in the community is a small matter alongside the great question of having at least a considerable number of intelligent people in that community understand what makes these values and how assessments are to be equalized.

"As for Somers' system, I can almost paraphrase Voltaire's criticism of a rising author, to the effect that his book was both new and true, but the part which was true was not new, and the part which was new was not true. Those things in Somers' system which are good are mostly an evolution that has been worked out independently in many cities. And the essential feature which is new, namely his method of calculating corner lot values, I am not yet convinced is accurate either in theory or practice."

That is all I wish to say on the point of hiring a company.

Now for the system. This is a vital point entirely apart from the question of employing a company. The great claim made by this particular company for its particular system is, that they have something which no one else can possibly have; that Mr. Somers has discovered or invented a system entirely unknown to others. So far as this idea of the "unit" lot value, is concerned, that is not new with Mr. Somers. It is ancient history in this part of the country—it may have been new to him in St. Paul in 1896. There is nothing new in the idea of using front foot values instead of square foot values, or in the idea of taking a standard lot to measure values by, or in the idea of publishing a land value map. The idea of having a rule for lots of varying depths is sixty years old in the city of New York. There are a dozen rules on the subject, getting to about the same point.

The one thing which the representative put up by this company to debate with me, Mr. Edward W. Doty—after he admitted these inside lot rules were near enough alike for practical purposes—the one thing he claimed that they had that no one else has, and which is a great discovery, is their method of valuing corner lots. To quote briefly from one
DISCUSSION ON THE SOMERS SYSTEM

statement made on behalf of that rule. "The Somers system is founded upon the following law: there is a mathematical relation between the value of any two sites affected by the same street influences of accessibility'"—I don't know quite what it means but I will take it for granted.

I quote now from what Mr. Pollock has just read, where he says—on the corner lot proposition—"Given the factors of street accessibility value upon all frontages of a block, a lot of a certain size and shape, with a certain relation to a given corner, has a certain value. Any change, however slight, in size, shape, relation to the corner, or value of units, will, upon computation, show a difference in value, in a mathematically exact ratio.'"

I have here a series of six diagrams, with questions that I ask to have answered. I requested that Mr. William A. Somers, the inventor of this system, be present to answer these questions. Is Mr. Somers present? [No response.] I requested that if Mr. Somers could not be present that Mr. Pollock be prepared to answer these questions or have some one here who could, or that he should state the formula upon which their tables are based. I see nothing in this paper [read by Mr. Pollock] telling the formula upon which these tables are based, or explaining the basis of this scientific principle. Before I ask these questions and show these diagrams I ask Mr. Pollock whether he is ready to state the mathematical principle based, as stated in their literature, upon the examination by Mr. Somers of thousands of lots, which is the justification for their corner rule.

CHAIRMAN CORBIN: I think the rules of this game are this. Mr. Pollock makes his statement. Mr. Pleydell makes any comment that he wishes. Mr. Pollock will have an opportunity after Mr. Pleydell to make any statement he wishes, and I think it would be better to follow that rule of the game than have a questioning back and forth, because we are limited on time. We are very much interested in Mr. Pleydell's discussion. The time has gone to ten minutes and I am sure that you will wish to extend Mr. Pleydell's time.
Mr. Francis N. Whitney, of New York: I move that we extend the time.

Motion seconded.

Ayes and Noes.

Mr. Pleydell, continuing: I would not ask for the time except that this is a very important proposition to the assessing officials and taxpayers. If this system is accurate and scientific in principle and no one else has anything like it, it may be worth what is asked for it. To install this system, various towns have been charged at the rate of nine, ten, or fifteen thousand dollars. We are told that no one else can do this work; that in a few years this system will be used throughout the United States. That means an expenditure of several million dollars. That is a vital matter to the taxpayers. If the system is not worth it, I wish to save the people the money. If it is correct I should like to have that principle demonstrated.

Mr. Pollock has explained that their method is to compute by a mathematical formula, the values (under given conditions) of each 10 x 10 foot square within the corner lot area 100 x 100, so as to show a value for each piece 10 feet square, then adding together the value of the squares within any area of ownership to get its total value.

The values of these squares are computed for the corner area on the basis of the values of the intersecting streets, regardless of lot lines. I will not now discuss the principle involved in this disregard of lot lines.

I show here a diagram (No. 1) which shows the value in dollars as actually given by one of Mr. Somers' printed tables (1910) to each area 10 x 10 feet of a corner 100 x 100 feet, in a case where inside lots on a main street are worth $1,000 per front foot and inside lots on a side street are worth $720 per front foot. (Total value, $131,734.) The strips marked A and B show, for comparison, the values for lots 10 x 100 feet fronting on the respective streets (but away from corner influence) and apportioned according to Mr. Somers published "inside lot" rule, which is also based on the scientific principle.
The corner lot table shows a constant decrease in values from the corner intersection for each 10 feet going down the side street until at a point 80 feet from the main street the area 10 x 10 feet (c) is valued by his printed table at $1,774, and the next one (b) 90 feet from the main street, $1,708. These last squares are valued respectively at $26

and $92 less than the equal area (a) 10 x 10 feet, which is further away from the main street, but worth $1,800 by his inside lot rule.

My question based on this diagram is, by what scientific principle or mathematical relation is it determined that an area with street frontage ten by ten feet (located at points b or c) is worth less than a similar area of frontage which
is perhaps twenty feet, or fifty or a hundred feet, further away from the corner intersection?

The next diagram, No. 2, is computed from the figures of the preceding one, and shows the amount in dollars by which each 10 foot square of the corner lot in diagram 1 is increased in value over the square preceding it, reading from the rear towards the main street (in direction of arrow). Each area

Diagram 2

<table>
<thead>
<tr>
<th>SIDE STREET $</th>
<th>150</th>
<th>149</th>
<th>123</th>
<th>105</th>
<th>92</th>
</tr>
</thead>
<tbody>
<tr>
<td>720 PER FRONT FOOT.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>66 52 43 55 26 24 49 41 30</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>30 60 80 100 139 150</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
| 10 x 10 feet is worth more than the one back of it. In general the amount of increase added to each square is a little more than the amount added to the square back of it, but there are exceptions.

For example, reading forward along the fifth row from side street (A) the amounts added increase in a constant ratio—26, 40, 44, 90—then comes a drop to 78, next a large
jump to 265, then a drop to 180, (although this square is nearer the street frontage) then a jump to 373, and 987, (the latter not abnormal, however, as this square has the actual frontage). Other rows show similar irregularities.

There are twelve squares, indicated by circles, where the value added is less than that added to the square next in the rear.

My question for this diagram is: What is the scientific principle underlying these interruptions to a constantly increasing ratio of added value? My point is, that I can understand a rule by which as you get nearer to a street frontage, land increases in value for each square foot, or each square ten feet, in some constant ratio. It may be a simple progression of $10 per square foot—it may be ten, then eleven, then twelve dollars—it may be ten, then nine or eight dollars—so long as it is constant I can understand there is a principle. I cannot understand the scientific principle by which you have jumps, such as will be seen in the third, fourth and fifth rows,—going up and down in a zigzag.

Diagram No. 3 shows the amount in dollars by which each 10 foot square of diagram No. 1 is increased over the square preceding it, but in this case reading towards the side street (as the arrow points) instead of towards the main street as diagram 2. And there are jumps here in the same way as in the last diagram.

For example, the increases along the fifth row back from the main street (A) read 0, 5, 15, 55, 34, 204, 73, 269. 668. The square which gets $73 increase over its predecessor is only twenty feet back from the corner, while the one which gets an increase of $204 is thirty feet back. These peculiar jumps are entirely out of proportion and I believe, not justified by any science of land values.

The encircled figures in the diagram indicate 17 squares where the value added is less than that added to the preceding square.

There is also an interesting square in diagram 3 (the fifth back from main street and fourth from side street), with an increased value of $204 that stands out above all the surrounding increases. Why is that particular area worth so
much more than the one preceding it while the one following it and nearer the street is increased by so little?

Taking the diagrams 2 and 3 together, there are four squares, shown by a double circle around the figures, where these discrepancies or interruptions to a constant ratio of increase, occur in the same place on each diagram, that is,

**Diagram 3**

<table>
<thead>
<tr>
<th>READ INCREASES IN DIRECTION OF ARROW.</th>
</tr>
</thead>
<tbody>
<tr>
<td>648</td>
</tr>
<tr>
<td>538</td>
</tr>
<tr>
<td>552</td>
</tr>
<tr>
<td>575</td>
</tr>
<tr>
<td>597</td>
</tr>
<tr>
<td>608</td>
</tr>
<tr>
<td>668</td>
</tr>
<tr>
<td>694</td>
</tr>
<tr>
<td>690</td>
</tr>
<tr>
<td>585</td>
</tr>
<tr>
<td>110</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>SIDE STREET $720 PER FRONT FOOT.</th>
</tr>
</thead>
<tbody>
<tr>
<td>MAIN STREET $1000 PER FRONT FOOT.</td>
</tr>
</tbody>
</table>

read in either direction. The other discrepancies happen in different places.

I ask, what is the scientific principle, if any, that causes the decrease in added value before referred to, to come at identical spots in the four cases but not in the same places in the other cases shown by the single circles?
Diagram 4 illustrates Mr. Somers' scale for determining the increased values given to a corner lot 100 x 100 feet under varying conditions of intersecting street values. The solid black lines show the scale used by Mr. Somers, according to his report, in assessing St. Paul in 1896, and published by him in 1901. Taking for illustration a corner lot fronting on a main street where land away from the corner is worth $1,000 a front foot, its value as an inside lot would be $100,000. The scale shows a minimum increase for corner influence (over the entire 100 x 100 feet), when the side street has no value at all, of $6,000 or six per cent. Mr. Somers' theory is, that just as side streets are more valuable relative to the main street, so in proportion the percentage of increased value to be added for corner influence goes up, until when the intersecting streets are of equal value, the highest possible addition for corner influence is given. He makes this maximum increase fifty-one per cent; in this case, with both the main street and the side street worth $1,000 a foot, an increase of $51,000, or a total value for the corner of $151,000.

The solid radial lines (which represent different side street values, as $100, $200, etc.) indicate the addition in value which Mr. Somers gives to the corner lot as the side street value goes up from a theoretical zero to the maximum of equal value with the main street; in this case, $1,000. Notice the dotted lines on the diagram, which do not appear in Mr. Somers' original, but have been drawn here for illustration. They carry out the heavy lines to a scale, which is Mr. Somers' inside lot rule. So that reading his inside lot scale back from its zero point (or frontage) you get a scale which constructs his distribution of increases according to relative side street values. I do not know the principle but that is the way the scale is constructed.

I call your attention, however, to this fact—that some time Mr. Somers discovered that this scale would not work, and that in the assessment which he made in Cleveland in 1910 and in the valuations made for illustrative purposes in Philadelphia in the same year, Mr. Somers shifted all his increases, as represented by the dash lines on the diagram.
Explanation of diagram 4. To determine the value of a corner lot by this scale, read the line of "main street value" (in the diagram, the upper line of triangle, marked $1000) to its intersection with the required side street value line (these are the radial lines). The point of intersection falls on a horizontal line showing the total value of the corner area of 100 x 100 feet. In this printed diagram only the $10,000 lines have been drawn, and other lines have been omitted for the sake of clearness, owing to the small size to which the diagram had to be
DISCUSSION ON THE SOMERS SYSTEM

reduced. Only three lines are here given to illustrate the 1910 valuations, but these indicate graphically the change.

The following table shows the total values given by Mr. Somers in 1901 (in round figures), compared with those given in 1910, to a corner area 100 x 100 feet, under different conditions of side street values, the main street value being in all cases $1000 per foot.

<table>
<thead>
<tr>
<th>SIDE STREET PER FOOT</th>
<th>TOTAL VALUE CORNER LOT</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1901</td>
</tr>
<tr>
<td>$ 0</td>
<td>$106,000</td>
</tr>
<tr>
<td>100</td>
<td>107,500</td>
</tr>
<tr>
<td>200</td>
<td>109,000</td>
</tr>
<tr>
<td>300</td>
<td>111,000</td>
</tr>
<tr>
<td>400</td>
<td>113,000</td>
</tr>
<tr>
<td>500</td>
<td>116,000</td>
</tr>
<tr>
<td>600</td>
<td>119,000</td>
</tr>
<tr>
<td>700</td>
<td>123,000</td>
</tr>
<tr>
<td>800</td>
<td>129,000</td>
</tr>
<tr>
<td>900</td>
<td>136,500</td>
</tr>
<tr>
<td>1000</td>
<td>151,000</td>
</tr>
</tbody>
</table>

The figures for 1901 have been computed from a series of scales published by Mr. Somers in 1901, and again in the "Single Tax Review" for July, 1905, and while only approximate, the probable variation is in no case more than one per cent.

The "reading scale" for lots 100 x 100 (and on which the diagram here shown is modeled) was too small to show the totals exactly. In the text Mr. Somers gives the value of a lot 1000 x 500 as $116,000. In the diagram the radial lines were drawn to correspond to the inside lot scale, and this gives a value for such a lot of $115,500. There may be a similar slight difference in other points, but the possible variation is too slight to affect the argument.

The figures for 1910 are taken from the Index of Corner Lot Values published by the Manufacturers' Appraisal Company to illustrate the Philadelphia valuation then begun by that Company, except those for $100 and $200, which were not exactly given. They correspond also to the percentages given in the book describing the Cleveland assessment of 1910.

The table (or the diagram) can be used for any combination of street values where the relative percentage is the same. For instance, for a $250 main street and $100 side street (being each one-quarter of $1000 by $400), the total value would be one-quarter of the $117,785 shown for the latter combination. A. C. P.
That is, at first in 1901, a nine-hundred-dollar side-street value gave a total corner lot value of $136,500; and in 1910, an eight hundred side street value gave a total corner lot value of almost $137,000 ($136,930). That is to say, the result of the change between the two years was to give a higher increase in value for a lower value side street than had been formerly given for a higher value side street. The questions I want answered here, based on this scale, are:

1. If the scale used in 1901 was based upon a scientific mathematical principle, why has it been so materially changed in these intervening points? If, on the other hand, the intervening points were incorrect and in need of revision, why did the minimum and maximum points remain the same and not need corrections?

2. What is the scientific or mathematical principle by which Mr. William A. Somers determined that the minimum increase to the corner, with no side street value, should be six per cent, and the maximum increase fifty-one per cent when streets are of equal value?

3. Is that maximum and minimum increase based upon a scientific principle or is it subject to a revision to fit conditions, just as these intervening points have been revised?

Now we come to something more interesting in actual figures. Diagram No. 5 shows the values which were given by Mr. Somers' first scale in 1901 to a corner lot where the main street is worth $1,000 a foot front, and the side street is worth $800 a foot. I have divided it for illustration into areas of fifty by fifty feet, and have added adjoining lots for comparison.

The actual corner intersection 50 x 50 feet (A) is valued at $49,000. The second 50 x 50 feet down the side street (B) comprising part of this corner lot, is valued at $25,500. And the third lot (E) also 50 x 50 feet, an inside lot with no corner influence, a hundred feet (or it might be several hundred feet) down the side street, is valued by his inside lot rule at $29,000; $3,500 more for this lot beyond the corner area than for lot B which is within the corner area.
Mr. Somers never published valuations for areas 50 x 50 feet. His 1901 scales, however, gave the values of the two lots 50 x 100 feet of the corner area, under both conditions of arrangement, that is, fronted upon either street. The values in the diagram have been computed by overlaying these totals, that is to say, the values respectively given to areas AB, CD, AC, and BD.

The apportionment here shown has been checked up by other valuations of Mr. Somers. However, as the total for area BD is only $41,000, it is obvious that if B was given a value of $29,000 (so as to equal E) this would reduce D to $12,000, and make that area $1,750 less than H, which would simply transfer the area of depression and not affect the point of the criticism in the text.

The areas EF and GH represent lots on the respective streets away from corner influence, showing the values given by Mr. Somers' inside lot rule. A. C. P.
I submit in all candor to anybody who has ever assessed property, bought property, owned property or rented property that there is no mathematically scientific principle by which the land fifty feet from the corner is worth less than land one hundred feet from the corner on the lower valued

Diagram 6

<table>
<thead>
<tr>
<th></th>
<th>1910</th>
</tr>
</thead>
<tbody>
<tr>
<td>E</td>
<td>29000</td>
</tr>
<tr>
<td>F</td>
<td>11000</td>
</tr>
<tr>
<td>B</td>
<td>32500</td>
</tr>
<tr>
<td>D</td>
<td>15500</td>
</tr>
<tr>
<td>H</td>
<td>13750</td>
</tr>
<tr>
<td>A</td>
<td>50000</td>
</tr>
<tr>
<td>C</td>
<td>39000</td>
</tr>
<tr>
<td>G</td>
<td>36250</td>
</tr>
</tbody>
</table>

The values shown in diagram 6 have been computed by checking up various 1910 valuations, and correspond also to the apportionment for $720 side street shown in diagram 1 (after allowing for the variation in value, which alters the apportionment slightly).

The question I ask is: Whether the failure of Mr. Somers' 1901 scale to give as much value to that second fifty by fifty feet down the side street as to the same area further
away is the reason why he changed the scale before he made his 1910 valuations?

Diagram 6 shows the effect of the change in Mr. Somers' scale between 1901 and 1910 on the area referred to. By the 1910 scale, instead of valuing this second 50 x 50 feet (B) at $25,500, he jumps it to $32,500, which is $3,500 more than the third 50 x 50 (E) instead of that amount less as in 1901. The only effect, however, of the change of his scale on the absolute corner 50 x 50 where the two streets meet (A), is to increase it to $50,000. That is, while he made a change in his scale by which he put $8,000 more on the whole corner 100 x 100, he put only $1,000 of it at the absolute corner where the traffic passes, and he put $7,000 of it on the side street 50 x 50, the rest of the area being unchanged. Now I ask, why the 1901 value was too low for the corner one hundred by one hundred. I ask also, what is the scientific or mathematical reason for dividing this increase of $8,000 given to the whole, in a way which gives only $1,000 to the lot 50 x 50 which has the two street frontages, and puts the remaining $7,000 on the fifty-foot lot that has only one street frontage, and that one the frontage of the poorest value?

These questions go to the fundamental basis—go to the mathematics of the claims of a scientific principle which bears an invariable mathematical ratio. And I do not wish to take any further time now until there is an opportunity for an explanation of those questions.

Chairman Corbin: Are there any other gentlemen who wish to discuss this question before Mr. Pollock answers?

Mr. Lawson Purdy: Just a few words. I saw on the wall in the other room a diagram showing part of a site recently acquired by the city of New York for a court house. I do not know exactly the purpose for which it was put there, but the assessed valuation is compared with certain appraisals made by experts and an appraisal apparently made by Mr. Somers. They don't agree at all, and because it might be inferred that the deputy tax commissioner of the New York
department who assessed that property didn’t know what he was doing, I wish to make a brief explanation of what those figures mean so far as I know. The site proposed to be taken was appraised by the tax department deputy for about fifty-five hundred thousand dollars. In the condemnation proceedings for the taking of the land by eminent domain the experts for the city of New York testified that the property was worth about fifty-six hundred thousand dollars, or about two per cent more than the deputy tax commissioner had assessed it. The experts for the property owners testified that it was worth about ninety-five hundred thousand dollars, and I think those are the figures that are out on the wall. The commissioners in condemnation finally determined the valuation to be some sixty odd hundred thousand dollars, or fourteen per cent more than the assessed value and about seventy-five per cent less than the experts for the property owners. I do not know how Mr. Somers arrived at his value. It looks as though it was somewhere between the expert for the city and the expert for the property owners.

One of the troubles about corner lot valuation by a mathematical rule is that it takes no account of lot lines. All practical assessors know that lot lines make a tremendous difference and that, under the decisions of the courts and the law in every state, assessments must be made of the property as it is with the division lines as they are. Corner influence may sometimes extend one hundred feet on a street, but where the corner is developed with a substantial and presumably permanent building, the corner influence rarely extends beyond the first lot so improved, and that is the opinion of many if not all expert appraisers. You may find that opinion expressed very clearly by Mr. Bernard in his recent book 1 describing assessments, published by the corporation in Baltimore of which he is the expert appraiser. He is also an expert employed by the tax department of the city of Baltimore.

I have just one illustration of that, which I think is conclusive; that corner influence extends little, if at all, beyond the first improved lot. Here in Brooklyn is a little lot twenty by seventy on the corner of Broadway and Havermeyer St. The value on Havermeyer is $720 a front foot; on Broadway $560. The corner lot and the next lot are both twenty feet wide. This is a very extraordinary little corner for this reason. It is in a very densely populated neighborhood of really poor people. Little shops are the character of improvement that pays the best. In this little corner lot twenty by seventy there are three or four little tiny stores twenty feet deep. On the lot next door which has twenty feet front and is seventy feet deep, there is just one little tiny store with twenty feet front and they only use a short part of it for store purposes—or even if they used it all for store purposes it is only the front of it which has much value for store purposes. Now the actual results of those two properties tell the story. The corner has a rental of $6,420. The next lot, only twenty feet from the corner, has a rental of $2,472. You will observe that the corner has a rental of two and three-fifths times as much as the inside. The assessed value of the corner, right or wrong, for land value alone is $40,000. By Mr. Somers' rules, as closely as I could conveniently figure them—being a secret process—the value is $26,000, being $14,000 less than we find the value to be. The next lot we have assessed at $15,000, and the corner therefore is assessed for two and two-fifths times as much as the next lot, which corresponds with the rentals. By Mr. Somers' method that next-door lot would be appraised at $18,700, which is $3,700 more than the assessed value, whereas the corner Mr. Somers would appraise at $14,000 less than the assessed value. And this is because in that neighborhood little stores twenty feet deep produce the highest return. Therefore I believe that while rules are useful and good things to have, and the more and the better they are the better, it is more a matter of common sense than rules for different conditions. Nevertheless there should be a trained mind, experienced in the neighborhood, who applies the rule when and so far as it fits the actual facts found on the ground.
Mr. W. W. Pollock: Mr. Chairman, the first speaker, Mr. Pleydell, gave the impression in what he said that these questions had been presented to me in advance. I will say that I have never seen the questions he has presented, and I will say further that if Mr. Pleydell wanted the answers to these very technical points which he has raised, which may or may not be correct,—I cannot say whether or not they are correct because I have not as yet analyzed the tables—if he wanted the answers to these questions why did he not go to Mr. Somers, who lives in New York, and whose office is only a stone’s throw from Mr. Pleydell’s office.

Chairman Corbin: Mr. Pollock, I suggest that there be no personalities in this discussion.

Mr. W. W. Pollock: I have no desire to inject any personalities except that, Mr. Chairman. I want to say this: there are fifteen cities which have used the Somers system, in every one of which cities the consensus of opinion—the all but universal opinion—is that the Somers System rules worked right—that they are correct. The Somers System is not perfect. There has never been a perfect bit of machinery constructed; but there are automobiles, notwithstanding, that you can get there on. The point I make in connection with these mathematical technicalities is this: that the Somers System works, has worked and it will work again. Now as to the point raised by Mr. Purdy, I have here the map he refers to, which was not prepared with any view of indicting the New York tax department’s assessments, and I can explain it. It is referred to in my paper. There is the map, with the black outlines (indicating) and they are the appraisals which six different and leading experts of the city of New York placed upon each of those lots. Following is the assessment and following is the computation made by Mr. Somers himself of that lot, based upon the unit value shown in the margin. Here are the estimates of two experts side by side—one who got $10,000 for his services, appraised it at $173,000, the other at $305,000. And another appraised it at $190,000. My understanding of this is that the com-
putation made by Mr. Somers by which he gets his amounts was upon the units as valued by the city department of taxes and assessments, and according to the Somers system those unit values do not amount to the same values under the New York assessments. This illustrates in a vivid way the importance, the great necessity for a standard of equalization of value. If there is any one who wants to know as to whether the Somers system has worked, whether it has created equity in assessments, we have overwhelming evidence to that effect. [A formal reply by Mr. Pollock to the criticism of Mr. Pleydell, received too late to be included here, is published as Appendix VII, page 449].

Mr. A. C. Pleydell: As I stated in my remarks, I asked that Mr. Somers be present or that Mr. Pollock be prepared to answer questions, or have some one here who could answer them, and Mr. Pollock wrote to Mr. Adams as follows:

"In reply to your letter about Mr. Pleydell's request, I will say that no explanation of the Somers System that does not explain the principles under which corner influence is computed of lots of various sizes, shapes and areas, would be intelligent or at all complete. I shall try very hard to make the principles of the Somers corner-lot method clear enough to those who hear my address so that everybody will understand these principles. We simply do not intend to place the Somers tables in the hands of people who will misuse them, but any responsible person who is in search of information concerning the Somers System can obtain all the information he desires concerning the Somers System and the mathematical formulae used for computation purposes."

I submit simply to this audience that there is no body of men in this country who are more qualified to pass judgment on the correctness of these principles, more entitled to have those principles presented to them fully and without secrecy, than those who are assembled here in this conference, and those principles have not been presented.
Chairman Corbin: The last item on the afternoon program I am sure you will find the most interesting. It is in the form practically of a round table. There will be brief discussions by gentlemen from different states and this will be under the direction and charge of Mr. L. E. Birdzell, chairman of the State Tax Commission, Bismarck, North Dakota, who will now take the chair.

Mr. L. E. Birdzell, of North Dakota: Gentlemen of the conference, there are here representatives from all parts of the country who came with their minds full of inquiry with reference to what is being done in the various parts of the country. If I properly sense the purposes of this round table discussion, it is this: That the question marks that we place up in our minds from time to time as the year goes by regarding the operation of various features of the tax systems of other states, be brought down out of the back parts of our heads and be put forward at this meeting where there are those present who are able to satisfy our curiosity and to answer our points of inquiry. We observe from time to time various important steps being taken in the way of tax reform and tax improvement. We look to Wisconsin for instance and we think of the income tax. We read the reports of this tax association and we gather that this association has been attempting to work out a uniform model inheritance tax law, and we look to the various states which have been struggling with the law and which have been producing results under it. We think of Connecticut, Indiana, Wisconsin and even of North Dakota in that connection. We look out to California and we see them making strides in the direction of the separation of sources of local and state revenue. We wonder
how it works. We look over into Rhode Island and we see them making progress in the way of corporate taxation, and we wonder how they have solved that problem. Now there are those here who will be able to throw light on these various phases of the progress of tax reform, and this I think ought to be considered open meeting for the free and voluntary discussion and presentation of the various phases of tax reform and of its progress as it has manifested itself in the various states.

Mr. William D. Trefry, of Massachusetts: Mr. Chairman I wish to begin by saying that in Massachusetts we cannot boast that we have made much progress toward the solution of our tax problems during the past year except that it be in the way of further consideration and further discussion, and that always does some good. But I do wish to call your attention briefly to two measures which have been enacted in Massachusetts looking to the better collection of taxes by collectors and to methods by which municipalities may control their loans and the business for which money may be appropriated. The first law was approved March 18, 1912. The principle of this is that the tax commissioner shall obtain information from the different cities and towns as to uncollected taxes, and that he shall next proceed to find out from the collectors whether or not those taxes which are in arrears may be collected in any certain time. This was done and I found taxes in arrears for ten, fifteen and twenty years. The law provides that taxes which have been permitted to go more than three years may be referred by the commissioner to the attorney general for collection at the information of the commissioner. Now I got my information and I found that the total amount of unsettled taxes in 1909 and prior years, which were actually required to be turned over to the attorney general under this chapter, amounted to $1,782,878, many of which ought to have been collected promptly and put into the abatement of bills of different municipalities. Of the taxes of 1909 complete settlement has been made in 209 municipalities, and there has been turned over to the attorney general 63 municipalities. The results from him I
have not yet received. He is, I know, proceeding to do something with these matters.

In the year 1910 the total amount of unsettled taxes reported to the tax commissioner was $463,635. Of this amount there has been turned over to the attorney general $150,265, held in abeyance $313,369; that is to say, the collectors think they may get a move on and get that money in, and probably most of them will. Taxes turned over to the attorney general were in 113 municipalities. No report to date has been received from six, held in abeyance seven, settled in full 227. That is of the taxes of 1910. Now I wish to take this business up and carry it on year by year and we will get better returns. It means that taxes in Massachusetts will be settled in three years from their commitment to the collector.

A companion statute to this was passed which goes into effect January 1. This is called an act relative to municipal indebtedness. There were all sorts of abuses in this direction and two of the most glaring ones I will mention. In Massachusetts we spend our money before we get it so we have loans in anticipation of taxes. These loans should be paid from the collection of taxes, but they are spent for most anything else and as time goes on they accumulate and finally are put into a permanent loan, the interest is increased, and the appropriations have thus been increased without the consent of the municipality. This practice has been stopped by this act, and these loans must be paid within the time limit of one year.

Then we have the matter of sinking funds. They had a number of sinking funds in the commonwealth which were supposed to mature a sufficient amount to meet the principle of the loans at maturity. The installment for the year is omitted and the loan does not mature. The law insists that those installments must be paid hereafter every year and the fund must accumulate so as to meet the indebtedness at maturity. Hereafter the loans will all be made on the serial method and practically paid every year.

This act contains a specification in fifteen articles giving the objects for which money may be expended by municipalities.
It has virtually wiped out the tax rate limit, and whatever expenditures are made go into the budget so that the rate may go as high as is necessary, but the bill has limited the things for which money may be expended, and it seems to me that this is a step in advance. We will keep our expenditures and our loans within limit. These things go to the fundamentals of efficient government. [Applause.]

Chairman Birdzell: We of the tax conference generally consider it a matter of considerable achievement when a state passes a thoroughgoing law authorizing the creation of an administrative tax commission. I am sure that we have been impressed with the state of Arizona in that respect, and Arizona is represented here by two men, Mr. Zander and Mr. Miller. Mr. Zander has consented to tell us of the achievements in Arizona.

Mr. C. M. Zander, of Arizona: Mr. Chairman and gentlemen of the convention, I have sat here through this conference and listened with great interest to the story of many of the older states showing the great labor, the ponderous deliberation, and hair-splitting controversies over some slight improvement in tax reform. I want to assure you that when it comes to doing things Arizona has you all backed off the boards.

Indeed I might say as an illustration of the difference between us that when I think of these dismal rainy days, responsible for this cold I am suffering with, I am reminded that if a bottle of Arizona Sunshine was uncorked in the center of New York State, the empire state would be scattered in the seas—so great would be the explosion; that when I look at the dirt and grim desecrating the beauty of your great building, I am tempted to sand-bag an Arizona sand storm and turn it loose among them. In Arizona when we erect a building, the beauty of its tinting and the grace and chastity of its lines never change unless it is to be enhanced with age.

We have just heard how contented the great and imperial State of Massachusetts is over the fact that it will now be able to collect its delinquent taxes three years after delin-
quency. This brings to mind another illustration of the difference between us that I might mention. As I walked through the streets of New York City I was reminded of the fact that in Arizona we have canyons also. I felt how foolish it was for me to cross the Continent to see canyons and the people still living in them. I want to say to you that when Egypt was young the people were moving out of the canyons in Arizona.

I offer these remarks in the hope that you will catch the import of the following report on the progress of taxation in Arizona for 1913.

By some oversight the constitutional convention with reference to equalization used the language of the territorial statute. The supreme court of the United States had held that this language permitted the Territorial Board of Equalization to equalize between classes as well as between counties. When the first session of the First State Legislature came to frame a law giving a State Board of Equalization unlimited power to go into the valuation of classes and individuals it discovered that the states of Colorado and Montana had the same language in their constitutions and that the Supreme Court of each of these states had held that the state boards could not go into the valuation of classes or individuals. Notwithstanding the decision of the U. S. Supreme Court for the territory, the legislature believed the decisions of Colorado and Montana would hold for the state, so the legislature submitted an amendment to the constitution removing all restrictions on the legislature relative to taxation.

At the same session the legislature created a Tax Commission and a State Board of Equalization and gave them such powers as the constitution permitted. For the year 1912 no attempt was made at equalization by the state board. The amendment carried by the largest majority of any of the four amendments adopted.

When the second special session of the first state legislature met, the most comprehensive program for new legislation was that on taxation. The tax commission drafted and submitted bills providing for

A three mill tax on monies and credits, modeled after Minnesota.
The assessment of private car lines, modeled after Minnesota and Kansas.
The assessment of railroads, a redraft of the old law, but including the assessment of local property in cities and towns for local purposes by the Tax Commission on the same basis as other local property was assessed.

A complete revision of the General Revenue Laws, and
A complete revision of the law creating the Tax Commission and State Board of Equalization.

The General Revenue law provided—

That all taxes for all purposes be levied on the same valuation.
For a tax limit, except for school purposes, to ten per cent in addition to the amount raised the year previous. This applied to cities, towns and counties.
For a budget to be published and a day of hearing on the same.
That the term real estate should be taken to mean and include the ownership of, or claim to, or possession of, or right of possession to any land or patented mine within the state.
That real estate and improvements be assessed separately.
That the term personal property should include money, chattels, choses in action, evidence of debt and any interest or equity in or valid claim to non-patented mining claims, and should be taken to mean and include all property of whatsoever kind or nature, both tangible and intangible, not included in the term real estate.
That all property must be assessed at its full cash value.
That the property of the corporations be assessed and not the stock, except:
That the stock of banks be assessed on its market value.
For the removal of county assessors for non-performance of duty.
That the county assessors should have unrestricted powers in the performance of their duties.
For the immediate collection of taxes on personal property.
That the assessors should have maps of all surveyed land and town and city lots and that they should place the ownership thereon.
That any town or city could require the county assessor to furnish a copy of the assessment of said town or city.
For a county board of equalization with unrestricted powers.
For an appeal from said board to the superior court but
That no taxpayer could test the validity of any tax either as defendant or plaintiff until the tax was paid.
That in case of an appeal the court had all the powers of the board of equalization.
That the assessment and tax roll be in one book and on a continuous page.
For the collection of taxes and the powers and duties of the tax collector.
That personal property be liable for real estate and real estate liable for personal property.
That all delinquent taxes could be brought in one suit for collection and deed given under judgment sale.
That no irregularity or omission from the assessment-roll or failure of any officer to perform his duty should work any invalidation of any of the proceedings of the assessment and collection of taxes or title under execution.
For the sale of real estate taken by the state under execution.
For fines and penalties for any officers or taxpayers for failure to comply with the provisions of the act.
The tax commission bill provided that the commission:
Should be composed of three members, one to be elected every two years and hold office for six years.
Should prescribe all blanks and forms not otherwise provided by law, used in connection with the revenue laws.
Should have the power to classify all property.
Should have general supervision over all the administration of all the tax laws.
Should confer with, assist, advise and direct all officers obligated under the law to make levies and assessments.
Should have the power to compel all taxpayers to furnish all information required by it.
Should have power to direct the district attorneys and attorney general to bring proceedings.
Should investigate tax systems of other states and countries and report to the governor.
Should assess railroads, telephone and telegraph lines, express companies, private car companies, and all patented and unpatented producing mines and should have the right and power to enter into or upon and to examine all property within the state.
Should have the power to reconvene any county board of equalization.
Should convene all the county assessors at some place in the state at least once a year for general discussion.
Should employ all the help it needed and have all the money necessary to carry out the provisions of the bill.
Should sit as a state board of equalization and as such should have power to raise or lower and in any ratio, counties, cities and towns, classes in the state counties, cities and towns and individuals anywhere and it should fix the rate of levy for state purposes.

During the consideration of the tax measures the commission was invited on the floor of both houses of the legislature and
in the meetings of the committees having the measures in charge. There were, however, a few meetings of committees the commission knew nothing of.

It was at one of these committee meetings that the bill for affidavit of consideration in deeds was either strangled, suffocated or axphyxiated, the commission never learned just which.

The three mill tax was scientifically executed, because it was a specific tax and a majority of the legislature was against specific tax of any kind, and although the bill was conceded to possess great merit it would not do to let it lead the way to a specific tax on the producing mines, the overshadowing question that tied up all tax legislation through the 2nd and 3rd special sessions of the legislature.

The commission withheld its recommendations on mine taxation because it was not unanimous on the question and in the hope that the other measures would go through first. Upon the legislature calling for these reports the majority of the commission submitted its report recommending a graduated valuation based on the gross and net production that would have valued them this year at $108,000,000. The minority recommended a valuation based on a physical examination and estimated that this plan would find a value of $200,000,000 for this year. Neither recommendation was adopted.

However, at the close of the third special session, the private car bill, the railroad bill, the general revenue bill and the tax commission bill were made into living statutes practically as recommended by the commission. The tax commission bill in order to secure a two-thirds vote for the emergency clause and thus save it from the referendum, must needs carry a rider providing for the specific valuation of producing mines at four times the net and one-eighth the gross, plus the value of the improvements. This resulted in a valuation of $113,000,000 for 1913, plus about $20,000,000 on improvements.

The private car bill resulted in a raise of from a few thousand in 1912 to a $1,180,000 in 1913. In the confusion at the close of the session a specific tax of 6% on the gross of express companies was passed and became a law without the
governor's signature. These are the only two specific laws as to valuation or rates that are now in the statutes. All other property is valued either directly or indirectly by the tax commission at its full cash value. In all classes the valuation remains on the local assessment rolls or is distributed to them and the general property tax applies with two exceptions, that of the private car lines and express companies. The commission values the property of private car lines both tangible and intangible and applies the general average rate of the state. The tax goes to the state. With express companies the valuation and rate are both specific and the tax goes to the state.

The commission opened the season of 1913 by an order to all assessors to assess all property at its full cash value. This order was followed by another to assess all stocks of merchandise at the full amount of their inventories and still another fixing the minimum valuation on all classes of live stock. The assessors carried out the orders both in letter and in spirit. There was no rest either night or day from the issuance of these orders until the books were finally closed. It is a matter of geology that Arizona is a land of extinct volcanoes but the tax commission was soon aware of the fact that geology was wrong.

Telegrams, letters, resolutions and delegations poured in on the commission. Town Councils, Boards of Supervisors, Boards of Trade, Chambers of Commerce and Associations met and resolved that it was all wrong. Newspapers poured out their vials of vituperation figuratively showing their teeth and shaking their fists and saying in direct English, "We'll get you! damn you!" Corporations pawed the air, Classes tore their hair, individuals frothed at the mouth and all sent supplications to the throne of grace or elsewhere for the love of Mike to help them or they were ruined.

The pounding became so hard that the commission and assessors soon found themselves working and standing together as a unit and actually "putting the thing over".

Many things that before were considered impossible were demonstrated to be possible. Gradually the turmoil subsided and taxpayers generally realized that a splendid as-
assessment had been made. The ten per cent limit served greatly to smooth the way.

When the abstracts of the rolls came in, it was found that the assessed valuation of the state had been increased from $140,000,000 to $369,000,000. Under the unrestricted powers granted it the tax commission was now to give the state the first genuine equalization it ever had. Before it took up this arduous task it called into an inquisitorial conference all the county assessors, the county boards of equalization and the clerks of said boards who brought with them all the assessment rolls.

This conference lasted a week with two night sessions. Every county was represented with a full delegation keenly alert to the fact that history as well as taxation was in the making. The officers of every county and the tax commission itself underwent a gruelling direct and cross-examination as to methods and diligence used in assessing all classes of property. The presence of the tax rolls prevented digression from the facts and also determined the application of stated efforts and methods. The result was remarkable. It proved to be a college on taxation. Local prejudice and misunderstandings that had existed for years were wiped out in one short week, and actual facts that needed correction took their place. Nearly all were elated over the result and those not wished they were. All were glad they came and subsequently they understood and were generally satisfied with the equalization made by the commission because they themselves had brought out the facts the equalization was based upon.

The commission, immediately after the conference, sat as a State Board of Equalization. It went into classes in the state, classes in the counties and classes in the cities and considered individuals anywhere. No counties or cities as a whole were affected. The result of the equalization was a net raise of over six million which together with the subsequent assessment of the private car lines made a total valuation of $377,000,000 and a raise of 267% over the 1912 assessment and 385% over the 1911 assessment.

Two suits have been filed against the assessments this year. One has already been decided upholding the assessment and
the other is still pending. It is not expected that any serious trouble will arise from any quarter. Although railroads with the private car lines and the mines are the only classes that bear a slight increase of the tax burdens there has been a material readjustment within all classes.

Mr. Charles A. Andrews, of Massachusetts: Mr. Chairman, I would like to ask Mr. Zander if the remarkable results accomplished in Arizona in such a short time can in any material way be laid to the credit of the National Tax Association.

Mr. C. M. Zander: Mr. Chairman, in answer to Mr. Andrews I am very glad of the opportunity to say something for the National Tax Association as it relates to Arizona. When the constitutional convention was in session the National Tax Association submitted a model clause covering taxation. That clause was inserted and is now in the Arizona constitution without the change of an i or the cross of a t, but unfortunately, as I stated, they inserted after it the same provision that had existed in the organic act of the territory and instead of removing the clause devised by the National Tax Association they removed their own insertion. The legislation that was substituted and placed upon the statutes was largely inspired by the papers, experience, interchange of ideas and the found and fixed results of this National Tax Association; and it stands in the very highest respect in our state. They send us back here every year in the hope that we may gain additional beneficial knowledge. [Applause.]

Mr. Lawson Purdy: I don't like to get on my feet again, but I have been asked to describe to the delegates some bills proposed in the state of New York. We have tried three bills in New York to procure the true consideration in deeds for the transfer of real estate. We have corresponded with Mr. Zander in Arizona and men in various other states in regard to the matter, and there will be bills introduced in various states—and this particular measure seemed to in-
terest Commissioner Adams of Wisconsin. The last bill was a very mild bill. It was based on a provision of our recording act. The recording act provides that if a short form of deed be used the recording fee shall be a certain sum, which is small, if one chooses he may use the old-fashioned long form of deed, but if he does it costs him five dollars extra. With that theory in mind a bill was prepared which provided that if the true consideration of the transfer of real estate was inserted in the deed there would be no further recording fee than the ordinary recording fee, but if it were not inserted in the deed then it would cost the recorder twenty-five dollars. That doesn’t seem like very much, but possibly it may be the bill.

Mr. Wm. A. Robinson, of Kentucky: Was it necessary for any constitutional or other reasons to permit the statement of a wrong consideration in the deed? Why did you have several forms, giving an option?

Mr. Lawson Purdy: The ordinary rule is that the deed contains a nominal consideration. About five per cent only of the deeds in this state contain the actual consideration, and only in the case of deeds made by executors, trustees and referees. We wished to have the actual consideration of all transfers stated and in order to do that it required a law which would enforce the insertion in the deed or in an accompanying affidavit of such consideration. We failed with one measure and tried with another and failed with that, and then we tried with the one just described. If only some other state will get it perhaps the legislature of the state will be desirous of emulating a good example, so we shall wish well to any one who will try it.

Mr. C. P. Link, of Colorado: Mr. Chairman and gentlemen, in Colorado we have had an experience as nearly identical with the experience you have just listened to as is possible to describe—even to opening the gates to Hades. The Arizona commission was appointed on the 15th day of May, 1912. The Colorado commission was appointed on the 20th
day of May, 1912. I never knew of that fact until we compared notes after arriving here at the conference, although I knew it was about the same time. Our history, our legislation and everything is practically identical even down to the mining bill. Our big fight and the only fight which we really were not satisfied with was that to get a fair assessment of mines and mining property.

To be a little specific I will outline our Colorado history because in some details it differs a little from Arizona. As stated we were appointed on the 20th of May. We had to certify out our corporation assessments (being at that time the assessments of the railroad companies, the telegraph companies and telephone companies and all public utilities operating in two or more counties) by the 15th of June, which gave us less than a month, so it was impossible for us to do more than practically follow the work of the year previous. Our assessment being made in Colorado on the first day of April it was too late for us to exercise the general supervision over assessors which is given us in our state to raise their assessments to full cash value for 1912. So we did not undertake to do that but followed the old rule of one-third value, although in Colorado our law has always directed full cash value. As soon as we had certified out our corporation assessments we very wisely packed our grips and went to Kansas to learn what they were doing over there, and there we absorbed a wonderful lot of knowledge that did us great good.

Under our 1911 act of creation we are given, in the words of the statute, almost unlimited supervision over county assessors, county treasurers and county boards of equalization. We have no supervision over the state board of equalization—and we are not a board of equalization ourselves. But a constitutional amendment was submitted to our people last fall and unfortunately by a very small vote was defeated—or fortunately in the sense that we may not have been looking for more work and complications—but everybody who attends this conference knows it is better to put the power of equalization, as it is in Arizona, in the hands of those who devote their lives to the work. We have had three im-
important tax suits in Colorado and in those the tax commission has been sustained by very sweeping decisions. In January our legislature met. Our law is antiquated. The tax commission wanted to submit an entirely new revenue law but in deference to the wish of our new governor, who was ambitious to have a short and inexpensive session of the legislature we deferred. In lieu thereof we submitted eight different tax bills, of which six were passed. The two defeated were the bill providing for the true consideration in deeds and the bill raising the salaries and graduating the salaries according to assessed value of the county assessor. Of the bills adopted, in view of the fact that we were struggling under the law of full cash value, one provided for a tax limit. That bill was practically identical with the Arizona bill except that our limit was fifteen per cent. And the legislature, wisely, left a discretionary power with the tax commission as to whether or not this limit should be exceeded. If they found they needed more money they could apply to the tax commission and in their discretion the fifteen per cent could be exceeded.

Another important bill was the one placing all utility assessments under the jurisdiction of the tax commission. That included street-car companies, water companies, gas and electric companies and all local utilities, and it may be of some interest to know that the value of those companies as assessed by the assessors last year on one-third value brought in about $16,000,000 and our assessment this year on full cash value was $71,000,000. That is exclusive of the large companies—railroad companies. The assessed value of all of the corporations by the tax commission was about $270,000,000.

Our mining bill is a constant apology to those of us who know anything about taxation. Colorado has always been led falsely to believe that the mining industry was something divine and must not be touched in the way of raising taxes, and I am ashamed to say our grand state exempted that industry entirely for ten years. After that they passed a bill assessing them on twenty-five per cent of output unless the net exceeded twenty-five per cent of the gross, which meant
there was practically no assessment of the mining industry in the state, and last year under that bill it paid only about four per cent of the taxes of the state. We introduced a bill in the legislature by which mining property was to be assessed at full market value, just as other property was assessed and thereby we opened some more gates, but after a very hard fight and probably in the face of the greatest lobby organized in that state we got some remedy. Now we assess fifty per cent of the gross output plus all of the net, where there is net. That was an improvement of about 150 per cent, but still it amounts to practically nothing.

Another bill, rather a novelty so far as I can see, is a bill that does not permit any rebatement or cancellation in the state, no matter how small or how large, to become effective without the approval of the tax commission. That seems like a simple proposition, but in many counties of our state very serious outrages have been committed. Assessors and county boards in some counties would come in bringing in large values on the books, get on the record, and then go home, rebate excessively and thereby undo what was done. By this bill we have wiped out these outrages.

Another bill of considerable importance which we framed and had passed requires every individual or corporation going into court to contest their taxes to take with them a full paid receipt. That stops a great deal of abuse with which many of you are familiar. We are given under our 1911 act what seems to be unlimited power to go into each county, raise the assessment of an individual, an item of property, or a class of property. That is a very serious question, the constitutionality of which has not yet been decided. After the assessors brought in their returns the first of last September we started in with all of the information that we had gathered in the last year and a half, to arrive at an intelligent conclusion of the work done by the various assessors. We found it to be very diversified, running from less than fifty per cent in several counties to what we thought was a good full one hundred per cent assessment in a number of counties. Promptly after getting all of our information together, we ordered the low counties brought up and in one
instance we ordered a raise in the county of one hundred and thirty-five per cent. I am glad to say that there were only a few, I think to be exact about fourteen out of sixty-three counties, that were what we would call badly assessed, but unfortunately in that list was the great city and county of Denver, which represents roughly one-third of the entire state, and in that county we have had a very unpleasant and unfortunate experience because of the attitude of the local assessor. In regard to our county assessors in Colorado, in general, I wish to state that with very few exceptions they have proven remarkably good men, are working in harmony with us, showing excellent spirit and many of them have developed ability that should make marks in the future record of taxation in our state.

I will cite one example to show what unpleasant work we have. I might begin by saying that under our law we are to assess everything at full value. That means if you come to a corporation that has only a physical value of $50,000 and has stocks and bonds worth $500,000, we are to assess that corporation for $500,000 and the assessors are supposed to assess the local corporation in proportion. At Denver among the five great daily papers not one was assessed at one-third value and some not one-fifth of their value, and we found it our unpleasant duty to raise them up.

Now in ordering these amounts on the various counties we are not permitted to raise values horizontally. You know that that corrects no abuse. We first instructed the assessors to over-assess nothing; then we instructed them on their weak points. After we placed these orders we informed the state board of equalization what we thought the values of the counties were. Then it was the duty of the state board of equalization to pass their judgment and I say with considerable pleasure that a telegram has reached us since we have been here to the effect that they have sustained our judgment without the change of a single figure in a single county. [Applause.] Our total valuation of the state was raised from $422,000,000 in round numbers in 1912 on the one-third basis to over $1,300,000,000 this year on full basis, and our state tax levy was reduced from 4 1/18 mills in 1912 to 1.3 mills in 1913. I thank you.
Mr. Allan C. Girdwood, of Maryland: It is not a recital of accomplishments that Maryland presents to this conference. The state, and particularly this special commission, is looking for help and aid. We desire to submit to the next legislature a model law, and are desirous of obtaining information of the best laws in all the states, and also those that have proved the most practicable.

If any member of this conference or any man interested in taxation in the United States is in need of assistance, should it not be to the credit of the National Tax Association that he should immediately turn to this body and ask for aid and help? I have come here not with any recital of the deeds and accomplishments of the special commission of Maryland—of plans we propose to put into effect—but I come with some suggestions and I ask off-hand for a criticism of those suggestions. We are without a state board of equalization; we are without any centralized agency of assessment. We have assessments when it fits the will of the legislature to order an assessment. In fact, within one hundred years, the state of Maryland has had but seven total assessments. The conditions in Maryland require a centralized agency as everywhere else. Our commission considers that a proper adjustment of the tax system of our state not only implies the raising of revenue, but also the distribution of that revenue equitably. It has gone outside to study the manner of raising revenue and has considered the expenditure of the funds. When we had a local license of $250 on saloons in the city of Baltimore, we raised a certain amount of money for local revenue. The promise was made by the city advisory committee on taxation that a raise in the license from $250 to $1000 would materially reduce the tax rate. The legislature adopted the amendment, the license was raised, but the additional increase from this source is not shown in any reduction of the tax rate. I shall look for the suggestions of this conference and for advice from every point I can before I go home. First, we want a model law for the establishment of a centralized agency. Connected with the centralized agency we must have adequate machinery. The experience of Virginia and its special tax report, its recommenda-
tions to the legislature and failure must be borne in mind by Maryland; the recommendations of the Iowa conference to the legislature and the action of the legislature must be borne in mind. Related to the scientific study of taxation we have the local practical questions confronting us that concern taxation here and there and everywhere. Our conditions now are peculiar, and yet we must adopt the same principles as are promulgated by the best students and members of this association. First of all, I believe everybody will agree that the local assessor should not be elected. That is a sound principle. He ought to be named by the state tax commission or central agency. In some communities, civil service is very repugnant. I believe very few legislatures would adopt any measure which would provide for the appointment of a county supervisor by civil service. They may do it in the central states of the west, but hardly in the east.

Chairman Birdzell: Time has expired. The Kansas Tax Commission has been referred to as a commission where Colorado gets its information. That commission is amply represented here by Mr. Howe, Mr. Burnette and Mr. Hostetler. I see Mr. Howe on the front seat and I am sure we should be glad to hear how he interests Colorado.

Mr. Samuel T. Howe, of Kansas: I will ask Mr. Burnette to make a statement.

Mr. J. A. Burnette, of Kansas: In some ways we progressed forward and some ways backward. The first thing the Kansas legislature did was to repeal the inheritance tax law, and the next thing it did was to take liberties with Mr. Howe's bill for the election of a county assessor, who was a county assessor. Our county assessor, as the office is now constituted, is very largely ornamental. He can abuse and advise all he pleases but the deputy assessor can also do as he pleases, and the county assessor cannot help him out. I am glad to say, however, that under the direction of the tax commission we have been able to accomplish a great deal in the way of assessment in our state. A bill was prepared, how-
ever, by the commission and submitted to the legislature which would have made the county assessor an assessor in fact. He was to assess all the property in the county, not individually of course, but he was to have authority to appoint such assistance as he needed. Our object was to lose the name of deputy assessor—most of you gentlemen know what that means. He is elected without any reference to qualifications for the position, without reference to the duties and without reference to the ingenious tax dodger. If he knows anything at all he has been there a long time and he knows that the county assessor is bound by the law. But that bill didn’t get anywhere. Coupled with this bill was one to make quadrennial assessments of real estate and it was absolutely demonstrated to the legislature in dollars and cents that this new plan would save the state from $100,000 to $200,000 annually; but that seemed to make no impression upon our solons.

Those are the backward steps we took. Whether the other steps were forward or backward I will leave you to determine. I think we went back. The legislature did pass a law that prohibited rebating. I believe it was Mr. Link who spoke of the abuses that grew up in the state of Colorado. While they were not so rank in Kansas as in Colorado, according to his statement, on account of political influence and favoritism rebating had been practiced, and a bill was passed last winter which absolutely prevents that hereafter.

There is one little ray of sunshine in all this. By persistent efforts, Mr. Howe did prevail on the legislature to submit an amendment to the constitution permitting the classification of personal property for purposes of taxation; and that will be voted upon at the general election in 1914. If we can just disseminate the idea in the state that this will permit the legislature to make further exemptions we think we can carry it. [Laughter.] Generally speaking we are doing about as well as can be done under the general property tax, and our commission has the absolute confidence of the people of Kansas.
### Progress Since the 1912 Conference

#### Statistics of Assessment in Kansas

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¹ Decrease.

Mr. Wm. H. Corbin: Two or three things were done in Connecticut which seem to me to be worthy of record. Many of you who have been here for a number of years will recall the agitation of this conference on the subject of model inherit-
ance tax legislation, to do away with double taxation. New York took the lead, following very closely the law recommended by a committee of this association. Massachusetts passed a similar law and I am proud to say that Connecticut in the spring of this year followed the good example of both of those states and enacted a law which is very close to that recommended by the committee of this association. This law went into effect August 1, 1913. It does away absolutely with double taxation of intangible property of non-resident decedents. It taxes all the tangible and real property of a non-resident decedent that is located within the state, and it taxes all the intangible and the real property within the state of a resident decedent; therefore there will be no more double taxation on the part of the State of Connecticut of Connecticut securities when held by estates of decedents in other states.

Two commissions reported to the legislature of 1913, and contrary to the usual custom their reports instead of being received and placed on file, were considered carefully and some of the recommendations were enacted into law. Our commission which reported on the taxation of certain public service corporations reported in favor of a gross earnings tax. The legislature adopted as many of the recommendations as did not apply to railroads. The latter said, "We are willing that the gross earnings basis shall be applied to telephone companies, telegraph companies, to the express companies and to the car companies, but we are satisfied to be left alone." The result is that the State of Connecticut is probably going to lose three or four hundred thousand dollars, and that is a good deal to us, because we still continue to tax railroads on the stock and bond basis instead of taxing them on the gross earnings basis; but with stock dropping from 135 to 82, yesterday's low mark, and bonds in proportion, it certainly was not to the advantage of the railroads for the bill to be enacted. We, however, now have a gross earnings basis which taxes express companies two per cent, which taxes telegraph companies and car companies at three per cent, telephone companies at four per cent, and the recommendation of the commission was that the railroads should be
on a four per cent basis also; in every case the gross earnings being apportioned by a method which aimed to be satisfactory to the state and to the corporations.

A commission also reported relative to the taxation of forests and woodlands and the bill as recommended by the commission was enacted into law. Without being egotistical, I think this is the best law that has ever been passed on that subject in the United States. It may and probably will be followed in other states eventually. It provides for the taxation of forests on the yield at the time of cutting, with the understanding and expectation that an annual tax will be paid upon the land so that no community will lose any of its present income. But it permits the forest owner to realize that he is not going to pay annually upon the increased value of the timber until a certain year when a fire, from the sparks of a railroad, will burn it down and then there will be nothing left; but he will pay at the time of cutting at a certain percentage of the yield, which seems to be reasonable.

There is one other law, which provides that there shall be a uniform list to be used by the individual taxpayers throughout the state. For many years a list of property has been required to be handed into the assessors. The selectmen and assessors could get up any list they had a mind to. With much effort and nervous energy, as well as almost loss of reputation, the State Board of Equalization finally evolved a uniform tax list to be used by the taxpayers of the State of Connecticut. Now the people of the state are accusing the tax commissioner of originating laws and of putting them on this list. But some of the papers are fair enough to say that the laws are all on the statute books, but the property owners haven’t been paying proper attention to them. So it is not the same in Connecticut with the Tax Commissioner and the Board of Equalization as it is in Arizona and Kansas. They are not popular and the criticisms are many.

Mr. Charles A. Andrews, of Massachusetts: But the best single thing that happened in the State of Connecticut this year was the reappointment of "Pa" Corbin. It isn’t necessary to inquire how he accomplished it but he is still on the job. [Applause.]
Mr. John Mitchell, of California: The extremely advanced stand taken by California in 1910, in departing from the general property tax for all purposes, state, county and municipal, and establishing in lieu thereof complete separation of state and local taxation, makes it a matter of especial interest to report upon the progress and developments during the past three years. The details have been published in full in the various reports of the State Controller and of the State Board of Equalization, and for that reason need not be reiterated here.

The main features of the present system are that the state taxes all public service corporations, except water companies, on a basis of the gross receipts, at rates varying with the different classes of corporations, and also all franchises (the corporate excess), and bank stock, with due deduction for real estate taxed locally upon an ad-valorem basis. Although it was not anticipated when this system was established that these taxes alone would be sufficient to support the state, and that it was expected that a small ad-valorem tax for state purposes would have to be levied, yet the result has been that for each of the three years, California has enjoyed complete separation of state from local taxation. It is no exception to this statement that by vote of the people at the same time that the new tax system was adopted, a special tax was levied for the Panama-Pacific Exposition, to be assessed and collected upon the old ad-valorem plan, because this special tax is but for four years only. It was estimated by the commission which recommended the new system that the new state taxes, which took the place of the old ad-valorem taxes, would have yielded, had they been in force in 1905, $6,800,000; had they been in force in 1908, $7,500,000; and in 1910, $8,000,000. The actual collections in 1911 were $10,400,000; in 1912, $11,000,000; and in 1913, but with higher rates, nearly $15,000,000. In none of these years was there any ad-valorem tax except the special temporary one for the exposition. The results may be condensed in the following statement:

First, the state obtained considerably more revenue than it had been enjoying; the local government on the whole
has had approximately $4,000,000 per annum more to spend; the average tax rate upon property in general has been reduced by over 20 cents on the $100; so that the small taxpayers have saved money and yet been able to enlarge their local expenditures.

Just following the adoption of the new tax system, there came a wave of expansion of local governmental activities. This was facilitated by the release of local property from state taxation, but was, in the main, due to the general progress in the direction of betterments and increased governmental service, which resulted in an increase in the burden of local taxation, especially in the cities. At the same time there came a strong popular demand for new state activities. This demand, however, was curbed by the administration during the first two years, and certain economies were introduced for the purpose of keeping the state’s expenditures within the revenues afforded by the state’s own separate taxes. The result was that there was a demand for increased state revenue and for a raise in the rates of the taxes on public utilities. It was claimed that the rates were based upon estimates of the burden of ad-valorem taxation, made in 1905-06, were too low because the increased activities of local government especially had increased that burden during the last seven years. In other words, that the rates of the public service corporations were now below those paid by the ordinary taxpayer. An important factor restraining the increase of the state’s revenue was the reduction in the service rates of the public utilities made by the railroad commission acting as a public utility commission.

Foreseeing that the legislature of 1913 would be confronted by the need for more revenue, and also that a demand would be made for an increase in the tax rates of the public service corporations, the State Board of Equalization, which acts practically as the state tax commission for California, made an extended investigation in two different directions. It first endeavored to ascertain the ratio of the taxes paid locally to the true value of the property subject to those taxes. Inasmuch as deeds in California rarely, if ever, recite the true consideration for the transfer, and few other re-
liable records are available, this investigation had to be conducted by extensive appraisals made in different parts of the state. This was done quite thoroughly and at very considerable expense. It was finally determined that the average burden of local taxation was approximately $1.14 on each $100 of the actual value. This was 0.14% more than the basis used in fixing the rates of the public utilities in 1906.

The second line of investigation pursued was the making of a stock and bond valuation of all the public utilities, which resulted in showing an average ratio of taxes to the true value under the gross receipts tax system somewhat below the 1% originally used as the basis.

At the same time that these investigations were being conducted by the State Board of Equalization, the railroads and other public utilities banded together and conducted investigations of their own along the same lines.

The result was that when the legislature met in January, 1913, the State Board of Equalization presented its report, showing substantially that an increase in the rates of the public service corporations was justified in order to bring their taxes up to the level of the taxes paid by other taxpayers. After extended hearings, in which the corporations were represented by attorneys and endeavored to show by their own evidence and by argument that the conclusions of the State Board of Equalization were not justified, the legislature decided against the contention of the companies and raised the rates as follows: Railroad companies, including street railways, from 4 to 4¼%; car companies from 3 to 4%; telegraph and telephone companies from 3½ to 4 2/10%; gas and electric companies from 4 to 4 6/10%. Express companies were unchanged. The ad-valorem rate on franchises and bank stocks was left at 1%. These new rates will make the corporation taxes yield close upon $15,000,000 for 1913, and they took effect at once.

The justification of these new rates rests upon two grounds. First, the average burden of taxation has risen; second, the value of the property used by the public utilities has risen with the gradual improvement of their earning power. All governmental activities are expanding and the
aggregate burden on the taxpayer must increase as the things which the government does for him multiply.

MR. J. G. ARMSON, of Minnesota: During the thirty-eighth session of the Minnesota legislature, held in the early part of the present year, 46 laws were passed relating to various subjects of assessment and taxation. Most of the new laws were of local importance only, many of them being slight amendments to existing statutes. A few of them, however, may be of some interest to other states and will be here briefly described for your information.

In point of revenue, the most important law passed since our last conference was the one increasing the gross earnings tax on railroads from four to five per cent. Minnesota has taxed railroads on the gross earnings principle only for more than 25 years past. The rate was originally 3 per cent. In 1904 it was increased to 4 per cent, and in November last by referendum vote of the people the rate was increased to 5 per cent. The change in the rate was perhaps largely due to the report of the tax commission, which was given wide publicity through the state press, showing that railroad property was paying less tax relatively than other general property of the state. The increase in the rate will add more than $1,000,000 annually to the revenue of the state. It is estimated that the total receipts from the gross earnings tax on railroads will exceed $5,000,000 this year.

One of the new laws extended the gross earnings principle of taxation to sleeping car companies, while another increased the rate on express companies from 6 to 8 per cent.

The gross earnings principle was also applied to trust companies. Heretofore such companies had been assessed and taxed under the so-called corporation plan, but it was not satisfactory. After a number of conferences with the representatives of all of the trust companies of the state the gross earnings principle was agreed upon, and the rate was fixed at 5 per cent. The law provides, however, that if a trust company receives deposits subject to check, other than trust deposits, it shall be assessed and taxed in the same manner as incorporated banks.
The most radical departure from the rule of uniformity in taxation was a law providing for the classification of property for purposes of taxation. The law divides real and personal property into four classes and assesses each at a different percentage of true and full value.

Iron ore whether mined or unmined constitutes class 1, and is to be assessed at 50 per cent of true and full value; class 2 includes household goods, wearing apparel, and everything used in the furnishing or adornment of the home, and is to be assessed at 25 per cent of true and full values; class 3 includes live stock, agricultural products of all kinds, tools, implements and machinery whether fixtures or otherwise, the goods and wares of merchants and manufacturers, and all unplatted real estate, and is to be assessed at 33 1/3 per cent of true and full value; class 4 includes incorporated banks, the franchise value of public service corporation, the so-called "corporate excess" of corporations, the stock of foreign corporations whose property is not otherwise taxed in the state, all platted real estate, and all other property not included in the other three classes, and is to be assessed at 40 per cent of true and full value.

The classification law, which becomes effective January 1, 1914, does not apply to property or corporations subject to a gross earnings tax or other lieu taxes, such as railroads and express and telephone companies, grain in elevators, mortgages, and money and credits. The assessment is to be made by local assessors, as under the old law, subject to review and correction by local boards of review, county boards of equalization, and the tax commission.

The mortgage registry tax law was amended by reducing the rate from 50 cents to 15 cents on each $100 of face value, with the proviso that if the date of maturity is fixed at more than 5 years the rate shall be 25 cents.

Under a constitutional amendment adopted in November, 1912, the legislature enacted a law providing for an annual state levy of one mill on each dollar of valuation, the proceeds of the tax to be used as state aid in the construction, improvement, and maintenance of public highways. Not less than 1 nor more than 3 per cent of the fund can be appor-
tioned to any one of the 86 counties of the state. The tax will produce a state road and bridge fund in excess of $1,300,000 for the ensuing year.

Several changes were made in the administrative features of the inheritance tax law, and the rate on bequests to public hospitals, churches, educational institutions, and institutions of purely public charity was reduced from five to two per cent.

The personal property exemption of $100 was amended so as to apply to the head of the family only. Under the original law each person subject to a personal property assessment was entitled to such exemption.

Man's best friend, the dog, was made the subject of the only proposed constitutional amendment relating to taxation. The amendment will be voted upon at the November election in 1914, and if adopted, the legislature will be authorized to enact laws providing for the taxation of dogs on a basis other than the value of the dog, and from the fund derived from such tax to pay damages sustained by owners of other domestic animals by reason of injuries caused by dogs.

While numerous other laws of more or less local importance were enacted, the above outline embraces the more important changes of general interest in the tax laws of Minnesota since the last annual conference of this association. The changes are presented without comment. We may say in conclusion, however, that we believe most of the recent legislation will make for better tax conditions in Minnesota.
SIXTH SESSION

Friday Evening, October 24, 1913

PRESIDING—SAMUEL T. HOWE, OF KANSAS

Program

1. State Taxation of Banks.
   Thomas B. Paton, General Counsel American Bankers' Association.

2. Discussion—Bank Taxation.

3. Distinction Between Value for Tax and Rate Purposes.

4. The Doctrine of Classification.

5. Report of Committee on Taxation of Public Service Corporations.
   Chairman, Charles J. Bullock, Harvard University, Cambridge, Mass.

6. Discussion—Public Service Corporations.
STATE TAXATION OF BANKS

THOMAS B. PATON
General Counsel American Bankers' Association

One of the main objects of your association, as I gather it, is the formulation and expression of opinion upon subjects of taxation which, by reason of the experience back of it, is a potent and guiding influence upon public thought and especially upon those charged with the duty of creating and administering tax systems in the different states. In this view I welcome the opportunity of presenting to you a few facts which have come to me relative to unsatisfactory conditions which exist in a number of states with especial reference to the taxation of banks in the hope that the presentation thus made may lead to action by your association towards the further investigation of such conditions and the ultimate recommendation of such steps and policies as will provide a satisfactory solution.

It is not my purpose to burden this paper with any detailed reference to constitutional or statutory provisions of the different states relative to the subject of taxation, as such information is already in your possession or readily at command, but rather in the main to present facts showing how tax laws and methods in a number of states work out unjustly in actual practice in their application to banks—facts which may be useful as a basis for formulating remedial legislation and changes in method.

THE NEW YORK SYSTEM

There are a few states in which the system of bank taxation is now satisfactory from the banking standpoint, and among these is the state of New York. Prior to 1901 bank taxes in New York were assessed locally; there was no fixed rule for taxation, and the matter was left to the judgment of the
local assessors. In the annual address to the New York Bankers’ Association delivered in 1899 by its President, Mr. Charles Adsit, of Hornellsville, tabulated figures were presented showing variations in assessments on capital, surplus and undivided profits ranging from 10 per cent in the lowest place to 119.4 per cent in the highest, with all possible variations between these extremes. The figures also showed wide discrimination between the taxation of banks and of trust companies, the general average rate of taxation upon the banks being about five times as great as upon the trust companies, and facts were given indicating grossly unjust burdens borne by the banks as compared with other personal property. Mr. Adsit cited, as an instance, his own home city of 13,000 people, where the banks, with $250,000 capital, were forced to pay three-quarters of the personal tax, and where there were single individuals worth more than the united capitals of the banks who escaped personal taxation entirely.

The presentation of these conditions to the New York legislature resulted in the amendment of the tax law in 1901, whereunder a new plan was devised for the assessment and taxation of shares of stock of banks. In brief, the tax law of 1901 provided a system of taxation of shareholders in banks by imposing a uniform rate of one per cent upon the value of bank shares, which value was ascertained by adding together the amount of capital, surplus and undivided profits and dividing the aggregate by the total number of shares. This tax was payable to the state and to be in lieu of all other taxes whatsoever for state, county or local purposes. It was to be collected and paid over by the bank, and the privilege to shareholders to claim deductions from the taxable value of their shares on account of their personal indebtedness or otherwise was withdrawn. The legislature thus provided a simple, certain and uniform mode of taxation of this kind of personal property throughout the state, and the loss of the prior privileges of making deductions was compensated for in an exemption of that property from all other taxes for state, county and local purposes. A franchise tax was imposed upon trust companies equal to one per cent of their capital,
surplus and undivided profits, and also upon savings banks upon the par value of their surplus and undivided earnings.

In 1905 the question came before the New York Court of Appeals in the case of First National Bank of Ossining, 182 N. Y., 460, whether, in determining the value of the bank's stock, the assessors had the right to include the value of the real estate owned by the bank without making any deduction thereof. The court held that the value of the real estate was not to be excluded or deducted, although the bank, as distinguished from the shareholders, must also pay tax upon real estate owned by it. The court said that according to the act the value of the shares was ascertained by "adding together the amount of the capital stock, surplus and undivided profits," which necessarily comprehended the real estate, and that not only was there no authority in the act to make any deduction of the value of real estate, but it was the legislative intent that no such deduction should be allowed. In New York, therefore, in lieu of all other taxation, there is a flat rate of one per cent upon the value of the shares, including the real estate in such value, and in addition the bank must pay taxes locally upon any real estate which it may own. Banks, so far as I can learn, are satisfied with the justice of this system.

In California there is a similar system. Bank shares are assessed and taxed to the owners by the state board of equalization, the tax being payable to the state, at the rate of one per cent upon the value thereof, which is ascertained by taking the amount paid in on the stock together with the pro rata of the accumulated surplus and undivided profits. This tax is in lieu of all other taxes and licenses, state, county and municipal, upon such shares and upon the property of the bank except as otherwise provided in the constitution of the state. In determining the value of the stock, differing from New York, there is deducted the value, as assessed for county taxes, of any real estate other than mortgage interests therein, owned by the bank and taxed for county purposes. The banks pay the tax on behalf of the shareholders and have a lien thereon for reimbursement. (See Laws 1913, Chap. 6, sec. 4; Chap. 320, sec. 18.)
There are a few other states where there is a similar uniform or flat rate fixed by the legislature for the taxation of bank shares, and the system is satisfactory to the banks. For instance, in Delaware I am informed that under the present law there is an annual tax imposed upon the banks and trust and loan companies of one-fifth of one per cent on capital, surplus and undivided profits, which is satisfactory to institutions paying the same. Again, in Connecticut bank stocks were formerly taxed in the hands of the stockholders locally, and the tax rating in different towns varied considerably. But under the present law, the state levies the tax at a uniform rate of one per cent on the market value of each share of stock less real estate, and returns to the different municipalities the amount which is due them on the stock held by residents of those municipalities. In Pennsylvania there is a state tax of four-tenths of one per cent in lieu of all other taxes for state, county or local purposes, upon the actual value of the shares which is determined by taking the aggregate of the paid-in capital, surplus and undivided profits. The value of the real estate, which is taxed locally, is not included in the value of the shares.

Other Satisfactory Systems

There are some other states where bank taxation is deemed fairly satisfactory, although constitutional provisions requiring all property to be assessed by uniform rules prevent a special flat rate being fixed by the legislature for bank property, and the taxes are assessed locally. For example, in New Jersey I am advised by Mr. William J. Field, of Jersey City, Secretary of the New Jersey Bankers’ Association, that taxation in that state is satisfactory from the banks’ standpoint at the present time. There, while the shares of national and state banks are assessed in the hands of the individual holder and trust companies are assessed direct, all are assessed under the same plan; the assessment is on the capital, surplus and undivided profits at the local tax rate, less the assessed valuation of the real estate and less the book value of all non-taxable securities owned by the bank. The real estate is assessed separately and the balance of the assessment is
made as personal property. Banking institutions are thus assessed the same as any individual. Again, in the state of Washington, Mr. P. C. Kauffman, of Tacoma, Secretary of the Washington Bankers' Association, advises that while the banks there are in favor of the New York system, this cannot be procured without an amendment of the state constitution, which requires uniformity in taxation. Years ago bank stock was assessed very unfairly and compelled to bear an unjust burden of taxation, but the bankers have succeeded in modifying the rigor of the former law to what seems to be an equitable basis. Under the present law, the book value of the stock is taken as the basis of taxation, and the assessment is made upon a 50% valuation. From that valuation the assessed value of the bank's real estate is deducted, so as to avoid double taxation. The resulting balance is termed personal property, and the assessed value of a share is ascertained by dividing that balance by the number of shares. The Supreme Court of Washington has recently decided that the valuation must be made upon a uniform basis; that is to say, if other property is assessed at a certain percentage of its real value, bank stock cannot be assessed at a higher figure. The bankers of the state, therefore, are not at present making any effort to change the law. So, again, in Alabama, I am informed by McLane Tilton, Jr., of Pell City, Secretary of the Alabama Bankers' Association, that bank taxation in that state was settled satisfactorily some time ago. They assess at 60% of the fair market value of the stock, and the average total state, county and city rate is $1.85 per $100. Bank stocks are no longer discriminated against for tax purposes. Bank stock is assessed and paid exactly like all other forms of property, real and personal.

In Kansas, also, taxation conditions are reported as satisfactory to the banks. Mr. W. W. Bowman, of Topeka, Secretary of the Kansas Bankers' Association, advises me as follows: "The system of taxation in Kansas was for many years most unjust and inequitable, and this toward the banks especially. Through a series of years of agitation on the subject in which not only the banks but all lines of business participated, a new and better system of taxation was in-
augurated; a tax commission constituted; and statutes enacted by which all property of every kind and class was to be assessed at its actual value. Under this law attempts have been made to reach and list for taxation all kinds of property, and while not perfect and perhaps no system of taxation ever can be, we have a system so satisfactory now to the banks and to everybody that we are resting contentedly under it. The subject of taxation is no longer among the questions that are inviting discussion. While even yet the bankers are paying something more than their proportionate share, still the testimony of the bankers would be and is that our taxation system is fair and equitable to them and to everybody. It has resulted in removing the excesses against the banks and leveling up taxation all along the line."

Also in Indiana, Mr. Andrew Smith, of Indianapolis, Secretary of the Indiana Bankers' Association, advises that in Marion county banks are taxed at 75% of their capital, surplus and undivided profits less real estate. The rate, for quite a while, has been 70 cents on the dollar, but, at the request of the state tax board this year, the assessment was raised to 75%. The state tax board has made a recommendation to the local tax board of each county in Indiana that they make the rate uniform throughout Indiana at 75 cents. So far as Mr. Smith knows, that is the prevailing rate over the state. While the banks would be pleased to have the tax rate reduced, still they are not greatly dissatisfied with the assessment of 75%.

Partially Satisfactory Systems

There are still other states where the system, though not satisfactory in all respects, is regarded as an improvement upon conditions formerly prevailing, and no widespread complaint is made of existing conditions. Thus, in Georgia, Mr. Orville A. Park, General Counsel of the Georgia Bankers' Association, advises that the tax law itself is satisfactory, but that the administration of the law has resulted in inequality of valuation in many localities which should be remedied. The law provides for local assessment upon the shares at the full market value, including surplus and un-
divided profits, at the same rate provided for moneyed capital in the hands of private individuals; that the market value of the real estate may be deducted from the value of the shares, and that the banks shall pay the tax for the shareholders. He says: "So far as I have been able to observe, this method of taxation appears to be generally satisfactory. The principal difficulty seems to be not so much in the law as in getting the tax officials, and for that matter bank officials as well, to understand the law. Although the statute is quite plain that the shares of stock are taxed at their market value, there seems to be a disposition to tax the bank itself upon its capital and surplus, without regard to the market value. There seems to be also in many localities a disposition to tax banks at the full value of their shares of stock, though other property is assessed at from sixty to seventy-five per cent of its value. It is hoped that these inequalities will be remedied by the new law passed at the recent session of the legislature providing for tax assessors in the several counties and with a general board for the whole state. I do not know that I can point out any special defects in the law itself. It seems to be very good, though its administration, as above indicated, is frequently not very satisfactory."

Again, in Minnesota, bank tax conditions have been very unsatisfactory in the past, but a new law passed at the last session, it is thought, will materially improve the situation, and the bankers are not disposed to disturb existing conditions. I am so advised by Mr. G. H. Richards, of Minneapolis, Secretary of the Minnesota Bankers' Association, who further writes: "Personally, I am inclined to think that the primary trouble is the defect in the whole system of personal property taxation, and I find that, since the organization of this state, a custom has existed of basing taxation on a 50% valuation. This is admitted by the tax commission to be illegal, as the law provides for a 100% valuation, but the custom has existed for so many years that, in order to legalize it, it would be necessary to change so many laws that no attempt has ever succeeded. At the last session of the legislature, however, a new law was passed
which provides for a classification of all personal property. Under this classification, banks will be taxed on a 40% valuation of their capital and surplus. This helps some, and legalizes the basis of taxation. Under our present system the banks pay an unjust portion of the personal property tax. In fact, I am informed that in some counties of the state as much as 60% of the entire personal property tax is paid by the banks. It occurs to me that the new law passed is on the right lines in the way of a remedy for existing conditions, and I would have no further suggestions to offer as a remedy.'

Again, in Iowa, conditions were improved in 1911 by the enactment of a law designed to place the taxation of bank stock and moneyed capital as nearly as possible upon a taxable value relatively equal to the taxable value at which other property is assessed throughout the state, as compared with the actual value thereof; and this was done by providing that bank stock and moneyed capital should be assessed and taxed upon the taxable value of twenty per cent of the actual value thereof, to be taxed as other property in each taxing district. I am indebted to Mr. P. W. Hall, of Des Moines, Secretary of the Iowa Bankers' Association, for this information.

Concerning the condition of bank taxation in the state of Illinois, Mr. R. L. Crampton, of Chicago, Secretary of the Illinois Bankers' Association, advises as follows: "The entire matter of taxation in this state was the subject of investigation by a special commission appointed in June, 1909, their report being transmitted to the legislature two years ago. This commission recommended no changes of a very fundamental character, but called attention to the inequalities in assessment as between personal property and real estate. It recommended the appointment of a permanent commission, consisting of three members, in place of the large and cumbersome board of equalization.

"In that report attention was called to the burden placed upon the banks which are largely assessed upon a basis approximating the par of their capital, surplus and undivided profits; the boards of review in a part of the counties reduc-
ing the assessment in isolated cases to as low as 60% of this amount in order to more closely harmonize the proportion of assessment to cash value on the farm lands in the vicinity.

"A strict interpretation of our revenue act would result in a much wider discrepancy than now exists. We have heard of cases where the banks were assessed on their full book value and farm lands at only 20% of their cash value.

"We do not expect any changes will be made until a complete revision of our revenue act is undertaken. The last legislature passed over the matter, and it would seem that it must be deferred until our constitution is revised in accordance with the proposals now being urged."

Unsatisfactory State Systems

But while conditions are deemed satisfactory from the banking standpoint in a number of states, either under the system providing a uniform flat rate imposed by the state in lieu of all other taxation, or under the system of local assessment and taxation, so regulated as to work without substantial injustice, and are partially satisfactory in some others, there are a large number of states wherein complaint is made of great injustice in the taxation of bank property as compared with other forms of property, and the special object of this paper is to present for your information and consideration statements which have been made of conditions in many such states.

Missouri

To begin, take the state of Missouri. The committee on taxation of the Missouri Bankers' Association, of which Mr. Thornton Cooke, of Kansas City, is chairman, prepared and presented to the state board of equalization in 1911 a statement giving very full statistics, which had been compiled with great labor and care showing the percentage bases of real estate, bank stock, live stock and merchandise, in 91 of the counties of the state for the preceding year. It was proved by actual figures that the individuals who owned bank stock were taxed twice or three times as much in proportion as were the owners of other forms of property. Real estate
in 1910 was assessed at 21.68% of actual value, live stock at 35.67%, merchandise at 39.44%, while bank stock was assessed at 57.02%. These figures are the averages. In some of the counties live stock was assessed as low as 15%, merchandise 20%, real estate 10%, while there was only one county where bank stock was assessed at lower than 50%, namely 44%. The facts showed that bank capital in Missouri instead of being assessed on the same basis with other forms of property, as the constitution and laws would seem to require, was assessed half as much again as merchandise, two-thirds as much again as live stock, and actually about three times as much as real estate. The Bankers' Committee on Taxation in Missouri have been endeavoring to protect the interests of members of their association by urging upon the state board of equalization and upon the various county boards of equalization reductions in the basis of assessment upon bank capital in the various counties, and have been in a measure successful in securing slight reductions. But substantial and unjust discrimination yet exists. In a report of the committee to the Missouri Bankers' Association an appeal to the courts has been suggested as follows: "Many banks have asked for and have received advice as to the proper way in which to submit arguments to the county authorities, and as to the proper procedure to take in case it should be necessary to seek relief through the courts. It is the opinion of the committee that when bank capital is deliberately assessed on a different basis from that used for real estate or other forms of property, the bankers can, after appearing before the county boards of equalization and being denied relief there, tender, at any time before their taxes become delinquent, the lawful amount of the taxes computed as nearly as possible on the basis used by the assessor and the county boards in assessing other forms of property. If the tender is refused, your committee believes that bankers can bring a proceeding in equity to prevent the collection of any greater amount." I have not been advised, however, that any test case has yet been brought.
STATE TAXATION OF BANKS

VIRGINIA

In the state of Virginia, likewise, there is the same condition of discrimination by the local assessor in the valuation of bank property as compared with other forms of property. Statistics will not be here given, but full information can be obtained from Mr. O. J. Sands, of Richmond, chairman of the taxation committee of the Virginia Bankers' Association. In a pamphlet issued by this committee the present year, entitled "A Plea for Justice," the following specific request is made: "The concrete justice which the owners of bank stock ask is an amendment to the law which will provide for the taxation of bank shares at the same percentage of value at which other property in the state is taxed. At present, the commissioner of the revenue in the district where the bank is located goes to the banks and ascertains the value as of February 1 of the capital, surplus and undivided profits of the bank. From this aggregate he subtracts the assessed value of the real estate on which the bank already pays taxes. Then he divides the remaining capital, surplus and undivided profits by the number of shares, certifies the result as the 'book value' of each share, and requires the bank to act as the state's agent in collecting the tax at the full value. Land may be assessed at 20% of its value; horses and automobiles may be assessed at 30% of what they will bring; other stocks and bonds may be hidden away and not taxed at all. But the bank stock must be taxed at the highest possible maximum.

"Here is all that the banks ask: When the commissioner makes his assessment, let him ascertain the full value of the capital, surplus and undivided profits, as at present. But let him do one other thing. Let him examine the farms in the neighborhood; let him ascertain as best he may the percentage of intangible property returned for taxation, and let him record at what percentage of the market value he assesses the personal holdings of other citizens. Then let him merely measure out justice and assess at the same percentage of its true value the shares of individual stockholders."

In forwarding me this information Mr. Sands writes: "We hope to have our laws amended at the coming meeting
of the legislature. A plan of segregation has been proposed. I hardly believe it will be successful. The bankers would be satisfied if the question of assessment of bank stock in Virginia should be left to the commissioners in their respective districts to assess the stock of banks on the same basis as real estate or other property assessed in the district. This we do not believe will pass the legislature, as it is well known that lands in Virginia are assessed in some counties as low as one-tenth of their actual value. If we could secure an arbitrary deduction of 40% from the total of capital, surplus and undivided profits, and then pay the local rate, it would be a great improvement over what we have now. The most satisfactory plan would be to tax the banks at the rate of $1 per hundred on their capital, surplus and undivided profits, for state purposes only and in lieu of all other taxes, similar to the New York plan.''

**Wisconsin**

Unsatisfactory conditions of bank taxation in Wisconsin are described in a letter to me by Mr. George D. Bartlett, of Milwaukee, Secretary of the Wisconsin Bankers’ Association, which I take the liberty of quoting: "In my opinion no subject is of greater interest to the banks of the country than the attempt to secure a remedy for the unjust and unfair methods of taxation of bank stock which are found in nearly all the states of the Union. For several years our association has endeavored, through our Wisconsin Tax Commission, to secure a more equitable assessment of all properties in the state, for it is conceded by the tax commission that bank stocks in Wisconsin have been for many years assessed at a much higher rate than other property in the state. The tax commission, however, seem to feel that, instead of bank taxation being reduced, the bankers should undertake to assist them in raising the assessment on all other classes of property. This is not an equitable method of procedure, for it would very seriously interfere with the standing of our bankers throughout their own community if any such attempt should be made by them, and, although we dislike to bring any test case in Wisconsin to secure a remedy for our present unjust
and unfair taxation, yet this would seem to be about the only thing for us to do unless concerted action can be secured by administrative officials.

"Our bankers believe that the New York plan of assessment of banks at a flat rate of 1% on capital and surplus, and making this rule uniform throughout the country, should be adopted.

"In our state, as in most other states, banks pay a very large part of the total personal property tax of those states. In some of our leading Wisconsin cities banks pay from 15 to 30% of the total personal property tax of such cities, and investigation made by various committees of our association not only has ascertained that the assessment of bank stock is not uniform in different sections of the state, but that in most sections bank stock is assessed on a basis of 100% of capital and surplus, while stocks of merchandise and real estate hardly reach the 50% basis.

"In Wisconsin our taxation law requires all property to be assessed 'at its real value,' and, although the determining of this real value is left very largely to the local assessors in different communities, yet the tax commission of our state now have very great power in refusing their figures.

"To leave the power of assessment in the hands of local assessors will always result in discrimination, and I believe you would do the banks of the country valuable service if you could secure a recommendation from the National Tax Association that the importance of this subject would, in all fairness, warrant some equitable rate, uniform in all sections, a rate which would not be subject to local influence as is now the case.

"In some sections of our state banks are assessed on the sale price of stock, taking as a basis some sale of a few shares, which in most ways really establishes the value of the shares. In other sections of the state banks are assessed on capital, surplus and undivided profits, while other sections pay no attention whatever to the surplus and undivided profits. The assessed value of a bank's building is deducted from the total assessed value of the bank's stock.

"Our association would favor the enactment of a uniform
method of taxation similar to that which has been adopted in New York after many years of investigation.''

**Kentucky**

In Kentucky, Mr. T. K. Helm, of Louisville, general counsel of the Kentucky Bankers' Association, thus describes conditions: "The system of taxation in Kentucky is extremely unsatisfactory and inequitable in its results. The constitution and statutes of Kentucky require that all property shall be assessed at the same rate of taxation, and that all property shall be valued for the purpose of taxation at its fair cash value, estimated at the price it would bring at a voluntary sale. From the adoption of the present constitution of Kentucky in 1891, to the passage of the Revenue Act of Kentucky in 1906, the banks were in almost continuous litigation, and three successive laws were held unconstitutional with the result that some of the banks paid taxes whereas others contesting did not pay taxes. Under the law passed in 1902, the court held that the tax, while nominally against a franchise, claimed to represent the value of the shares of the stock of the bank, was in effect a direct property tax upon the assets of the bank, and that therefore the banks must be allowed to deduct their government bonds and other non-taxable securities, in order to uphold the constitutionality of the law under the National Banking Act, which permits the taxation of national banks at no higher rate than that assessed against other moneyed property.

"After the holding last mentioned it was apparent that national banks, through their ownership of national bonds, were paying much less in taxes than were state banks and trust companies, and also that owing to the difference in the holdings of government bonds there was inequality in the tax burden resting upon national banks; hence, in 1906, a revenue act was passed providing for the taxation of all banks, state and national, and trust companies, upon assessment of the value of their shares of stock as the property of the shareholders, allowing the banks, however, to deduct from such assessment of the capital stock the previously assessed valuation placed upon its real estate and upon which
taxes had been paid. Under this law our great difficulty has been the inequality of valuation, for, as said, the rate applied by each taxing authority, whether state, county, city or district, must be uniform within the limits of the authority imposing the tax. For state purposes the board of valuation and assessment, sitting in the state capital, makes the assessment.

"After the passage of the act the board of valuation and assessment was in some doubt as to how to arrive at the value of the shares of stock, and a tremendous amount of data was gathered and trouble and expenses suffered incident to an effort to ascertain an actual market value of the shares of stock, it being recognized that the market value in many instances was above and in some instances below the book value of the bank's assets. However, after much argument and discussion, the board adopted as the basis of valuation the book valuation of the assets and adhered to the book value of the assets, these being exactly represented, of course, by the bank statement of its capital, surplus and undivided profits, from the aggregate of which was deducted the assessed value made upon the real estate owned by the bank.

"It finally being made to appear to the board of valuation and assessment that a bank could not, under the prescribed basis of valuation, realize upon all of its assets without a dollar of loss or a dollar of cost, and that of the assets which the bank really owned the cream or best of them were held for the benefit of depositors and creditors, and only those remaining assets should be deemed held for the benefit of stockholders, the board was finally induced to accept 80 per cent of the capital, surplus and undivided profits, as representing the fair cash value of the assets, if offered for voluntary sale.

"But the board of valuation and assessment's valuation upon the property of banks only applies for state purposes, and in each of the one hundred and twenty counties of the state the county assessor is permitted for the purpose of county taxation to reach his own basis of valuation, with the result that in Jefferson county we have induced the assessor to accept a basis of sixty per cent of the capital, surplus and
undivided profits, and in four or five of the larger counties an assessment at seventy per cent has been adopted, in others seventy-five per cent, and so on. Up to in the majority of counties for county purposes the banks are assessed at the full book value of one hundred cents on the dollar of their capital, surplus and undivided profits.

"We have the same difficulty as to cities. In our state cities are of six classes, there being but one city of the first class, but in the classes the number increases as the lower number of class is reached. In some of these classes, I think the first three, the law provides for a city assessor who shall for the purpose of city taxation adopt his own independent valuation upon the property therein, whereas in the remaining cities the valuation of the county assessor is adopted, and thus it has resulted in many instances and in several different years coming under our observation that the same property of the bank would be assessed at eighty per cent on the book value of its capital, surplus and undivided profits, for state purposes, at seventy cents for county purposes, and at one hundred cents for city purposes, leading to no end of confusion in the minds of the bankers.

"Because of the inequalities in the basis of assessment above suggested, banks in direct competition with each other, but located in different counties, are subject to totally different burdens of taxation.

"Our last legislature took the necessary steps to submit to the voters of the state a constitutional amendment under which the legislature will have the power to classify property for the purpose of taxation, and to apply to the different classes a different rate of taxation.''

COLORADO

Concerning tax conditions in Colorado, Mr. Frank N. Briggs, of Denver, member of the committee on taxation of the Colorado Bankers' Association, presents the following: "Up to the present year assessments on banks in this state have been very unequal, every assessor having a method of his own. In many of the counties where the assessors have been friendly to the banks, the assessments have been ex-
ceedingly light; in other counties where the assessors seemed to feel that they could make political capital by antagonizing the banks and imposing unjust taxes upon them, the assessments have been exceedingly heavy. This year we have a tax commission in Colorado, consisting of three men, appointed by the governor. These men, acting as a commission, have undertaken to equalize the taxes on different classes of property throughout the state. Our new law provides that the assessments must be made on the basis of full cash value on all property. The commission undertook to fix that value on bank stocks by taking the capital, surplus and average undivided profits for the year and 4% of the total deposits, added all together and fixed the value at the total of these items.

"A committee, of which I was a member, from the Colorado Bankers' Association waited upon the commission recently and endeavored to convince them that it was unjust to add the 4% of deposits to the capital and surplus of the banks. We consented, under the present law, to an assessment upon the capital, surplus and average undivided profits for the year. One member of the commission agreed that this was a proper basis, after our explanation and arguments had been heard.

"Just what action they propose to take finally and officially, I have not yet been informed. If they agree with us, you may put Colorado banks down as being assessed under the new law to the full amount of their capital, surplus and average undivided profits. If, on the other hand, they do not agree with us and insist upon adding the 4% of the deposits to the assessment, you may put it down that the Colorado Bankers' Association will contest such an assessment in the courts, if necessary."

OKLAHOMA

A letter from W. S. Guthrie, of Oklahoma City, President of the Oklahoma Bankers' Association, is brief and to the point: "About all there is to the tax situation in Oklahoma is this: Our law provides that all property, personal, real and corporation, will be assessed at its full value, and if this
law was carried out to the letter there would be no objections on the part of the banks, nor could they have any. When they assess us for our full capital, surplus and undivided profits, they are doing just what the law requires. The trouble comes in when they assess other property at less than its actual cash value, and in their not being able to figure out the actual cash value of real estate and personal property. We have fought this situation from every angle, and it seems impossible to get an equitable adjustment.'

**Montana**

From Montana, Mr. S. McKennan, President of Union Bank & Trust Company, of Helena, Mont., writes: "I dare-say that the bankers of each particular state think they are bearing a greater burden of taxation than the bankers in any other state; and while no doubt the banks as a class, in every state, are assessed on a greater valuation than other kinds of personal property, yet, when it comes to a case of unequal assessment, I think Montana suffers the worst. A glance at the tabulated statement of bank assessments in the various counties of Montana for the year 1912 (Mr. McKennan encloses the table) will disclose the fact that the assessment in the various counties varies from 18% to 77%—certainly a wide range of difference in the assessment of like property.

"The assessors of the various counties meet in annual convention each year and always agree among themselves to rectify these matters, but return to their counties and make the assessments, usually on the same basis as the previous year, and the banker who is getting off with a 30% or 40% assessment feels quite willing to let well enough alone, when the banker who is paying on a 77% assessment brings up the subject of bank assessment at the state conventions.

"I might say, however, that the matter of an equal assessment of banks is receiving more attention this year, and I believe the assessments in the various counties for the year 1913 will show a more uniform percentage than that of 1912.

"In our state, where the livestock industry, for example, is a prominent business, the assessment of sheep and cattle is almost uniformly on a basis of 50c on the dollar, and why
therefore should not bank capitalization be assessed at the same uniform rate?

"Our statutes provide, of course, that all personal property shall be assessed at its actual value. Of course, if assessments were really made on such a basis, it would mean a reduction of the tax levy, and everyone would, quite naturally, feel satisfied, but dissatisfaction arises through the fact that the farm in the country which was sold last fall at $80 per acre was assessed this spring at $18 per acre; the store building in the city which sold last year for $11,000 was assessed this spring at $13,000; the stock of goods in the store which inventoried on December 31, 1912, at $77,000, was assessed this spring at $25,000; a bunch of stock cattle assessed in March at $22.50 per head sold in April for $50 per head; and so on, along the line.

"It is the unequal assessment, with the bank, as a rule, paying the big end of the taxes, that causes the dissatisfaction with the present method of taxation."

**Nevada**

As to conditions in Nevada, Mr. J. W. Davey, of Reno, Secretary of the Nevada Bankers' Association, advises: "The last legislature of this state created what is known locally as the Nevada Tax Commission, which is in reality a State Board of Assessors. It is the duty, and aim of this commission, to place a valuation on all taxable property in the state, and their plan is to assess everything at as near its actual value as is possible, and then to levy the assessment on a general basis. The basis for this year is 60%. The theory is all right, and if the commission completes its work in a conscientious manner it will result in placing all taxpayers on an equal footing, and should ultimately bring about a lowering of the tax rate to a certain extent. The banks feel that they have been somewhat imposed upon by reason of the commission assessing 60% of the capital, surplus and undivided profits. This association has taken the matter up, and after showing the commission that the undivided profits cannot be considered a fixed investment, but rather a fund to meet expenses and such losses as the bank may sustain
in the conduct of its business, and that to a certain extent, the surplus fund should be considered in like manner, they have agreed to eliminate the undivided profits and to assess only 75% of the surplus. Owing to the great difficulty the commission will have in ascertaining the actual value of all land, live stock, etc., in the state, the probabilities are that this class of property-holders will be able to avoid part of their assessment. Under these conditions we feel that the tax basis for banks in the state is still a little high, and that it should not be over 50% of the capital and of 75% of the surplus. We will not be able to accomplish this additional reduction of 10% this year, but hope to by the time the next assessment is levied.''

**NEW MEXICO**

In New Mexico, Mr. J. C. Christensen, of Raton, Secretary of the New Mexico Bankers' Association, says: "Tax conditions in this state, as far as the banks are concerned, are very unsatisfactory. Under the laws of the state of New Mexico the power to assess banks, railroads, grazing lands, etc., fixing the valuation at which the same are to be assessed in the various counties, is placed with the State Board of Equalization. On account of the admission of this state to the Union, entailing additional expenses incident to a state government, it became necessary to increase the taxes throughout the state. In so doing the Board of Equalization recommended to the various county assessors that all property be returned at actual cash value, and upon this basis a taxable valuation be placed of 50% on all bank shares and 35% on all real estate and personal property. This was so manifestly unjust to the banks that the banks in this (Colfax) county have joined in a suit enjoining the collector from taking any steps towards making collection of our taxes.

"In all of the above we might not feel disposed to complain if it was not for the fact that 50% of our taxes go to the state government at Santa Fe, leaving only 50% for the payment of our local county, city and school taxes. It has been suggested that a bill be presented to the legislature, which would authorize the payment of all railroad, Pullman
Company, express and telephone companies, and all other inter-county corporation taxes, to the state government and permitting the payment of all other taxes accruing to each individual county to such county. In this way taxes assessed against us locally would be used locally. Also in this way we could more easily trace the expenditure of our own taxes and check any extravagance. As it is now the larger part goes to Santa Fe, where it is spent and where no one knows what it is spent for. Furthermore, in this way, should our valuation be too high the loss would not be so great, as the money so paid would be paid in our own immediate vicinity.'

**North Carolina**

From North Carolina, Mr. John F. Bruton, of Wilson, chairman of the committee on legislation of the North Carolina Bankers' Association, says: "The embarrassment and annoyance which confront the banks of this state grow out of a state constitutional provision which requires that all properties shall pay an ad-valorem tax on the true value of the properties subject to taxation. In arriving at the true values of bank stocks we are required to account for and value everything in sight, and this is done under a close mathematical calculation. Frequently the bank stockholder is required to pay tax on his stock at a value higher than he can sell same for.

"Other properties, especially lands, are valued at extremely low figures by tax appraisers originating in the respective counties, and in order that one county may avoid paying more taxes than another county the authorities have winked at the irregularities incident to land values, and the State Tax Commission do not dare to advance the price of lands for taxation purposes. The result is that real estate is valued at from one-tenth to one-half its actual value.

"We have sought for relief in various and sundry ways, but are confronted in every instance with the constitutional provision above referred to.

"Our legislature has just been in special session and agreed to submit to the people certain amendments to our constitu-
tion, one of which looks to the partial segregation of properties between the municipalities, counties and the state. I think this amendment will pass, but its application will for some time prove experimental, and corporations will probably continue to suffer by being discriminated against.''

**North Dakota**

In North Dakota, Mr. Wm. C. Macfadden, Secretary of the North Dakota Bankers' Association, writes: 'The assessment of taxes on bank stock in our state has been very unsatisfactory and conditions have not improved, although our Bankers' Association has been very active in its efforts to obtain fair treatment at the hands of the taxing and equalizing officials. Real estate and personal property, other than bank stock, are assessed in our state at from 15 to 25% of their value, and are very fairly equalized each year on this basis by the State Board of Equalization. Bank stock is assessed all the way from 25 to 70% of its par value, just as the tax officials in each county happen to be inclined, and year after year our State Board of Equalization has refused or neglected to equalize bank taxes on anything approaching a uniform basis.

'We have a law in our state which overcomes, to a certain extent, the injustice in assessments. Under our law all property, both personal and real, should be assessed at its actual value. It has, however, become a custom to assess all property, as before stated, at from 15 to 26% of its actual value, with the exception of bank stock. In returning bank stock for taxation, the bank is allowed to deduct from its capital stock, surplus and undivided profits, the amount it has invested in real estate, on the theory that the investment in real estate is a part of its capital stock. Our banks are also allowed to make a further deduction of an amount equaling 5% of the loans and discounts carried by the bank, on the theory that a bank is entitled to figure a small shrinkage in the value of its loans and discounts, just as the merchants figure that there is a shrinkage in the value of goods carried in stock. After making these deductions from the amount of the capital, surplus and undivided profit, the tax is equalized on the basis of from 25 to 70% of the re-
remaining value, as before stated. It should be the duty of the State Board of Equalization, of course, to equalize the assessment of bank stock on a uniform basis, and the committee in our association having the matter in charge, have, after years of effort before the State Board of Equalization, concluded nothing can be done under our present system in obtaining a just equalization of bank tax until the whole matter has been passed upon by the courts.

"We have at present in our state a tax commission under a law recently passed in our legislature. The power of this commission, however, seems to be limited to ferreting out property that has heretofore escaped taxation, and very little has been accomplished along this line, hardly enough to justify the existence of the commission. Our banks very naturally hesitate about going into court to establish their rights in the matter of taxation, and year after year pay an unjust proportion of the tax levied."

**Wyoming**

Mr. W. J. Thom, of Buffalo, Wyoming, refers to the new law of 1913 providing that bank shares shall be assessed and taxed locally on the par value in the names of the respective shareholders. This law contains a further provision, the validity of which he doubts, that the surplus and undivided profits in excess of fifty per cent of the capital shall also be taxed. He says: "The result is a very decided discrimination against the banks, as their records, being public, every dollar of the book value of the stock is assessed (less, of course, the deduction of 50% of capital from the surplus and profits, if any there be).

"The same amount of money invested in real estate, live stock or in personal property of any kind, would be assessed at a very much lower rate.

"It is extremely doubtful if there is a cattle owner in the state, for instance, whose holdings could be bought for twice or even three or four times the amount at which they are assessed. Grown cattle are valued by the state for taxation purposes at $25 per head, I believe, and yearlings at $15: while, as a matter of fact, cattle are worth $50 or better, yearlings included. It is notorious that merchandise in re-
tail stores is not assessed at book value, but probably at one-third or less of the actual invoice. Lands also are taxed at an arbitrary rate fixed by the State Board of Equalization, and in many cases the rate is far below the actual value of the land. It is equally true, however, that in some other localities it is too high. Why should banks alone, whose statements are made public, be assessed at such a high rate when capital invested in other lines of business receives so much more liberal treatment?"

**Summary**

It is impossible, of course, in a paper of this kind to cover details of taxation in every state, but enough has been shown of varying conditions to be fairly typical. A rough survey of past and present conditions indicates that, despite constitutional provisions designed to provide equality of taxation but absolutely ineffectual to that end, there has been in the past, under systems of local assessment, widespread discrimination against banks by the higher valuation of bank property as compared with other kinds of property upon which the tax rate applies, and further, in many states, wide differences in the percentage of assessed value of bank shares between different counties in the same state; that in a few states where constitutional provisions have permitted, these unequal and unjust conditions have been remedied to the satisfaction of banks by the enactment of legislation, as in New York and California, providing a special method of taxation of bank property, that is to say, providing a uniform rate upon the full value, payable to the state; that in some other states, where the taxes are paid locally, reform has been accomplished through the legislature or through administrative action, so that a fairly equitable and satisfactory system of local bank taxation now exists in such states; but that while conditions have thus been slowly bettering there remain a large number of states where gross inequality of valuation still exists and where corrective steps must yet be taken. What measure of relief can be obtained under existing laws through appeal to the courts or by inducing a wise exercise of discretionary power upon the part of administrative officials, and in what localities re-
In 1911 a committee of your association on bank taxation submitted a report, which reviewed the general situation and recommended as the best remedy the New York and California systems as "a great and obvious improvement upon the method of assessment by local officials, whose discretion may easily become caprice, arbitrary harshness or political or personal favoritism." The committee said that "the system has been developed, elaborated and tested by experience and adopted only after the most thorough investigation and discussion. It is simple, certain, uniform and as nearly just as any system can practically be made." This report made three classifications of states with reference to constitutional provisions; first, constitutions which contain no restraint at all upon the taxing power; second, constitutions which impose no restraint on classification but require uniformity throughout the state, and third, constitutions which require equal taxation of all property in proportion to its value by uniform rules. The New York and California system, it was pointed out, could be adopted in states of the first and second classes, but not in states of the third class, unless such constitutions should be amended. In states of the third class whose constitutions require the equal and uniform taxation of all property, the report said that "it is possible to provide for assessment at book value, but not possible to have a uniform tax rate. Something can be done, however, to mitigate the inevitable evils of inequality. It may be provided that the assessment at book value shall be reduced by the assessors to the same percentage of full value at which real estate is assessed in the same tax district, and from their decision an appeal to the courts might be allowed.'" Something along this line appears to have been done in the state of Washington.

In the light of this report, the only possible value of a paper such as I am presenting is in the way of cumulative or detailed evidence of conditions recognized generally in that report; and by indicating and emphasizing the unsatisfactory conditions in a large number of states, suggesting the recommendation by your association of the necessary corrective steps and measures in those jurisdictions where conceded evils exist.
DISCUSSION—BANK TAXATION

Mr. A. H. Davison, of Iowa: The speaker referred to the Iowa statute relating to bank stock in a way that may be misunderstood. He spoke of bank stock being taxed at twenty per cent of its value. As a matter of fact it is four-fifths of the valuation of other property. We assess other property upon a twenty-five per cent basis, and bank stock is eighty per cent of the one hundred per cent which, divided by four gives the twenty per cent, and really is eighty per cent of real estate. I thought possibly the statement as it was without the explanation might be getting an error in the record.

Mr. Thomas B. Paton: I am glad that you make that suggestion. I think I rather did misconceive the situation.

Mr. Thomas E. Lyons, of Wisconsin: What is the source of the gentleman's information as to whether people were satisfied?

Mr. Thomas B. Paton: In my paper I have named the gentleman in each state who has supplied the information. In the most cases it is the secretary of the State Bankers' Association. In a few cases it is the chairman of the legislative committee of the State Bankers' Association. In some cases it is some other gentleman who has made a special study of the subject, and I have quoted in that paper what each one has said and given their names especially for the purpose of reference. If any further information is desired their names and addresses will be found in the paper.

Mr. A. C. Pleydell, of New Jersey: The speaker said that the bankers in New Jersey are satisfied with the system that exists there. They have good reason to be. From one-third to one-half of the banks in the state are paying no taxes at
all except on their real estate. The others are paying on valuations that range from ten to thirty per cent of book value, and they do that as a charity—because they don't like to deprive the locality of the revenue. The situation has come about in this way. Trust companies when first organized were small institutions and were taxed under the general corporation law. This gave them certain exemptions of securities and thereby they paid less than the banks. The banks complained of this discrimination, so a law was passed which, instead of raising the tax of the trust companies to equal that upon the banks, gave the same exemption to the banks that had been enjoyed by the trust companies. This law allows the banks to deduct the value of non-taxable securities which they hold, so that a bank with a capital of $100,000 and several millions of deposits may invest enough of its depositors' money in such securities to offset its capital stock, and thus pay no tax.

One of the greatest complaints made to our investigating commission throughout the state was of this escape of bank shares from taxation. The bankers admitted that this should be remedied, and expressed a willingness to accept the New York one-percent plan. We prepared a bill for this plan and then the bankers kindly informed the legislature that it would be unconstitutional. They opposed all suggested changes that would increase their taxes. The only argument they made which appealed to me was, that banks were a benefit to a community, aided in its development and were a worthy business enterprise, and so you should not tax them. We could agree on this point, but I wanted the banks to help get that system for the other fellow. I don't see, when the little grocer or storekeeper has to pay on his goods and merchandise, why the bank dealing in money and having a valuable franchise should not pay too, in the same way the small merchant does. The banks would not help to get legislation that would relieve the small merchant, or even to exempt household furniture, and we are still discussing this question, which will come up at the next session of the legislature. The condition is hardly satisfactory to the people of the state of New Jersey, however it may be for the banks.
DISTINCTION BETWEEN VALUE FOR TAX AND RATE PURPOSES

Robert H. Whitten
Librarian-Statistician, New York Public Service Commission

Official valuations of the property of public service corporations are made for four general purposes: 1, taxation; 2, rate making; 3, accounting and capitalization; 4, public purchase. A fundamental question is whether the identical valuation can serve for all of the four general purposes for which public valuations are made. Is valuation the same regardless of the purpose or is valuation meaningless unless used with reference to some specific purpose? As a matter of fact the courts and commissions in their opinions often recognize that valuation or specific elements of valuation may vary with the purpose. The best-considered decisions are undoubtedly those in which the problem of valuation has been worked out solely with reference to what was just and reasonable, with reference to the specific purpose for which the valuation was made. The result has sometimes been less fortunate when the reasoning has been influenced by the fact that because it was just and reasonable to adopt a particular rule in a valuation for a different purpose it was consequently proper to adopt the same rule for the purpose at hand. As expressed by the Valuation Committee of the National Association of Railway Commissioners,¹ "A little consideration will show that value is meaningless unless made with reference to some particular object. To be sure, it may happen that fair value for one purpose is the same as fair value for another, but in order to determine what is fair value, for any specific purpose it is necessary to think it out with reference

¹ National Association of Railway Commissioners, Proceedings of the 23d Annual Convention, October, 1911, p. 145.
to this purpose only, and when we discuss the theory and
elements of valuation, it seems necessary that we should have
in mind a specific purpose that the valuation is to serve.
It appears to us that considerable confusion in the discussion
of the subject of valuation has arisen either from lack of
attention to this fact or from the false assumption that value
may be ascertained without reference to purpose.'

The above conclusions are particularly applicable to valua-
tion for rate and tax purposes. Upon this question the
same committee ¹ says:

There is no inherent inconsistency in using one method of valuation
for tax purposes and another method for rate purposes. The tax, by
whatever method assessed, is considered an operating expense in fixing
rates, and is therefore borne by the user of the service wherever rates of
charge are strictly regulated. Methods of ad valorem taxation must be
worked out with an eye single to what is just and practicable in
taxation, and methods of valuation for rate purposes must be worked
out with an eye single to what is just and constitutional in rate making.

This is necessarily so inasmuch as the basis of taxation can
be fixed and changed by the legislature or the people of
the state, but the basis of a just and reasonable valuation for
rate purposes can only be worked out in the last instance by
the Supreme Court of the United States. This is clearly
brought out in the recent Missouri Railroad Rate Cases,
(230 U. S., 474), where the value fixed by the lower court
had been based largely upon the assessed valuation as fixed
by the State Assessing Board. This basis was declared un-
satisfactory. Justice Hughes in delivering the opinion of
the court says (at pages, 498, 502):

"None of the members of the state assessing board was examined.
There is no satisfactory proof of the grounds of their judgment. Nor
was it shown that these valuations, made by them for the purposes of
taxation, were upon a basis which could properly be taken in determin-
ing the fair value, where the sufficiency of prescribed rates is involved
and the issue is one of confiscation.... It cannot be regarded as suffi-
cient to introduce assessments, or valuations made for the purposes of
taxation; and this is particularly true when the principles governing the

¹ National Association of Railway Commissioners, Proceedings of the
23d Annual Convention, October, 1911, p. 145.
assessments are not properly shown, and, for all that appears, they may have rested upon methods of appraisement which would be inadmissible in ascertaining the reasonable value of the property as a basis for charges to the public.'"

In this connection it is important to consider the meaning of value as used in rate cases. The primary meaning of value is worth. Worth or value is used in two chief senses: (1) as utility and (2) as power in exchange. Water has very great utility and in that sense has unlimited value, but ordinarily water has comparatively little exchange value. Of course a commodity must have utility to have exchange value. The aggregate utility of the commodity does not, however, determine exchange value. The aggregate utility of wheat is much greater than its aggregate exchange value. As Marshall has clearly pointed out, however, there is a sense in which utility does determine exchange value. The actual utility of the last bushel of wheat for which there is an effective demand fixes the exchange value of the entire supply. The price of wheat is fixed by its marginal or final utility.

The term value as ordinarily used in economic and legal discussion refers not to utility but to exchange value. And by exchange value is here meant power in exchange measured in terms of money. Price is the measure of exchange value. The term value, however, even as thus limited is not very definite. Is value the price that can be obtained at any particular moment or is it the price that would be paid under certain assumed conditions of demand and supply? Certain conditions are almost invariably assumed. It is assumed that the price will be paid not at a forced sale but at a voluntary sale between a willing seller and a willing buyer. But the degree of willingness of buyer and seller varies greatly. The estimated sale price may depend very largely on the length of time allowed to secure the most anxious buyer. The courts have most frequently had occasion to define value in connection with the taking of real estate by condemnation or in connection with the assessment of real estate for tax purposes. Thus the Massachusetts court has discussed and limited the term as follows:
"In an action to recover for damages sustained by a lessee by the taking of the property leased, by a city in widening the street, the judge correctly instructed the jury as follows: 'The value of the leases is their market value. 'Market value' means the fair value of the property as between one who wants to purchase and one who wants to sell any article; not what could be obtained for it under peculiar circumstances, when a greater than its fair price could be obtained; not its speculative value; not a value obtained from the necessity of another. Nor, on the other hand, is it to be limited to that price which the property would bring when forced off at auction under the hammer. It is what it would bring at a fair public sale, when one party wanted to sell and the other to buy. The fact, therefore, that the lessee did not want to move, wanted to stay there, would have paid a very much larger sum to stay there, is not a test of market value, because it is not a case of one who wants to sell and one who wants to buy. The question is, if he wanted to sell his lease, what he could have obtained for it upon the market from parties who wanted to buy and would give its fair price.' Lawrence v. City of Boston, 119 Mass., 126, 128, 129.'"

The courts have usually defined as equivalent to current market value such terms as "value", "cash value", "money value", "exchange value", "pecuniary value", "actual value", "appraised value", "fair value", "true value", "just value", "full value".1

As already noted the question before the courts has usually been that of a valuation of real estate for condemnation or tax purposes. A valuation of that kind has important elements that tend to differentiate it from a valuation of a freely produced commodity. If a commodity can be freely and quickly produced its market price will follow quite closely its cost of production. The value of such a commodity may be said to be limited by its cost of production. Cost of production even in this case does not make value. Value is not created because of the expenses of production. Exchange value, however, in the case of a freely and quickly produced commodity is limited by the cost of production as there would be no reason for paying more than such cost for it. Cost of production limits final or marginal utility and in this sense limits exchange value.

1 See Words and Phrases, vol. viii, under "Value" and cross references there given.
If a commodity may be freely produced, but only by specially trained workmen, a large fixed investment, and great business risks, the cost of production will still in the long run tend to limit market price. It is clear that the production of a particular commodity will not be permanently carried on unless the price received covers all the costs of production. Under free competition it is also clear that a price higher than that necessary to cover special risk, interest, profits and operating expenses will bring new capital into the industry and thus bring the price down to the cost of production. For a freely produced commodity, therefore, a price or market value that does not conform to cost of production is not a stable or normal price of value. In a static society with perfectly free competition the market price would conform to cost of production. In our present highly dynamic society with many actual limitations upon perfect freedom of competition market value and cost of production are often very far apart. Economists have used the term normal value to indicate in the case of a freely produced commodity that value that corresponds to cost of production. It is the normal value because it is the value toward which market values tend; it is the value that under assumed conditions would be stable.

The above presupposes competitive conditions. In the case of unregulated monopoly the force that tends to limit prices charged to the cost of production is entirely lacking. This creates the necessity for public regulation of the rates of charge of public service companies. The aim of public regulation is to accomplish what in other industries is assumed to be accomplished automatically by free competition, that is to limit the price charged to the actual cost of production. In the case of authorized and regulated monopoly, ordinarily the reasonable rate of charge will correspond exactly to the economist’s conception of normal value. The reasonable rate is ordinarily the one fixed by the normal cost of production. It is fixed by normal operating expenses plus a normal rate of return on a normal capital cost. Cost is ordinarily the determining factor in fixing fair, reasonable or normal prices in the case of a regulated monopoly.
It is true that cost does not make value. Unless the commodity or service has a real worth to the consumer equal to its cost of production such cost has no part in fixing a fair price. Thus the courts hold that a reasonable price must not be in excess of the real value of the service to the consumer. But assuming that the value of the service to the consumer is at least equal to the cost of production, it is cost that determines the reasonable rate of charge. Ordinarily therefore the problem in a general rate regulation proceeding is the determination of cost of production. The determination of cost of production involves a determination of:

1. Operating expenses including allowance for depreciation.
2. Capital outlay.
3. Interest and profits on capital outlay.

In determining all of the above factors, it is well to bear in mind that it is fair cost of production that is being sought. Any treatment of any of the above factors that will tend to vitiate the desired result (the fair cost of production) should be avoided. The entire problem is greatly simplified by keeping steadily in mind the close interrelation between these three factors and the controlling purpose in view, that of determining fair cost of production as the basis of a fair rate of charge.

In such a determination when the term value is used in connection with capital outlay it must be assumed that it is a value as fixed or limited by cost that is meant and not exchange value in its ordinary sense. The courts have used the terms "value", "present value", "fair value", "reasonable value", "just value" in relation to the amount upon which a fair rate of return is based. That they have not usually had current exchange value in mind is clearly apparent from the fact that the chief weight in determining value has been given to cost, either actual cost or reproduction cost. They have usually used value in the sense of normal value as that term is understood by economists.

The use of the term value without adequate qualification and delimitation to mean market value in certain tax and condemnation cases and normal value or cost in rate cases
has doubtless added confusion to a subject already distractingly complex. It has doubtless served to confuse the matter in the minds of the courts and commissions themselves. Nevertheless the employment of a substitute term is not without difficulties of its own. It is natural to suggest that confusion would be avoided by the use of the term cost instead of value in rate regulation discussions. But this term, too, must be very carefully limited and defined in order that it may be free from pitfalls. The courts have possibly felt that the term cost would be construed as cost new and that this would be inequitable as no allowance would be made for accrued deterioration due to wear and age or accrued lack of adaptation to function due to obsolescence or inadequacy. There would also be no allowance for accrued amortization of capital caused for example by a foreknown exhaustion of the public need for the major portion of the service capacity of the invested capital. These considerations were doubtless potent in influencing courts to use the term "present value" or "fair value" with reference to the amount on which the fair rate of return should be based. With more definite conceptions of "cost", "accrued depreciation" and "accrued amortization" the above considerations would not be so important and there would seem to be little difficulty in the use of term "cost" with the understanding that proper allowance would be made for "accrued depreciation" and "accrued amortization".

In preferring the term fair value to cost, courts have also doubtless had in mind the fact that not all cost or expense is reasonable and necessary expense. If the term cost is used it must be assumed to be modified by a rule that only reasonable expenses shall be included in fair cost.

Another reason for preferring the term value to cost is the fact that regardless of cost of production the reasonable rate of charge cannot exceed the fair value of the service to the consumer. If a plant has been established in a community too small or too poor to pay a fair return on the fair cost of the service the rates of charge must necessarily be governed by this condition. As, however, under such conditions, rates of charge must be established without reference either to mar-
ket value or to cost this special case should not influence the selection of terms to be used in connection with the general problem of rate regulation.

Upon the whole it seems clear that the term "'fair capital cost'" might well be substituted for the more usual term "'fair value'", to indicate in a rate regulation proceeding the amount on which a public service company should be allowed a fair rate of return. Fair capital cost would be assumed to be reasonable and necessary cost and to contain a proper deduction for accrued depreciation and accrued amortization of capital. But whichever term is used, it is clear that cost rather than current exchange value is the controlling factor.

In taxation the tax rate being fixed the assessment is all important and final. A rate case is not nearly so simple. It involves the determination of a fair average return to the company for the service rendered. This fair average return is only partially dependent on the fair value fixed. The fair average return is the product of the rate of return and the fair value. Certain elements and factors may be allowed for either in fixing the rate of return or in fixing the fair value. Thus, some authorities allow for the cost of establishing the business by an increase in the rate of return, while other authorities may allow for the same factor by an increase in the fair value. So long as this element is included in the fair average return received by the company it is immaterial in a rate case which of these two methods is followed.

Public policy may make and alter the methods and basis of taxing public service corporations. If we assume, however, that their property is to be taxed upon its market or exchange value it is at once evident that there must be a divergence between taxation for rate and tax purposes. Property has value as an investment only to the extent of the present and prospective net returns. If there are no returns the value disappears. The investment value of a property is the present worth of the prospective returns. In other words, the capitalized probable net return is the investment value. The impossibility of basing reasonable rates on a value that is itself determined by reasonable rates is apparent. It would be clearly a case of reasoning in a circle.
We have the evident absurdity of requiring the answer to the problem before we can undertake its solution. Suppose the fair investment value of the property is taken as the fair value of the property for rate purposes, and suppose upon this fair value the company is allowed to earn an eight per cent return. It would be a question then whether this determination does not immediately create a new and higher investment value, and therefore require an immediate increase in the rates of charge just established. This will be true if the capitalization rate which actually determines investment value is lower than eight per cent the return assumed in this case.

To be sure certain facts and certain elements of value will be considered in arriving at a judgment as to value for either tax or rate purposes. This is particularly true of the important fact of cost of physical property, both actual cost and reproduction cost. But the degree of consideration given to certain facts may vary greatly with the purpose of the valuation and certain facts and elements may be considered for one purpose and entirely excluded for the other. "Methods of ad valorem taxation must be worked out with an eye single to what is just and practicable in taxation, and methods of valuation for rate purposes must be worked out with an eye single to what is just and constitutional in rate making."
THE DOCTRINE OF CLASSIFICATION

ARTHUR S. DUDLEY

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The subject of classification suggests a very broad field for investigation and discussion. Classification may be employed in taxation for various purposes, as for segregation of state and local revenues, for the application of a system of progression in rates, etc., but in the brief limits of this paper an effort will be made merely to touch upon some of the principles that should receive recognition in any system of classification for purposes of discriminatory treatment under the general property tax. Let it be admitted at the outset that there is no such thing as a true science of taxation. Human desires exist independently of legislative enactments, and as a result of these natural desires we have supply and demand, exchange of services and commodities, and value, constituting the science with which political economy deals; but there is no natural desire for taxation, and it only exists as an art employed by society to fill certain social needs. The chief need of course is revenue for the support of the state.

The chancellor of the English exchequer was once described as a taxing machine "intrusted with a certain amount of misery which it was his duty to distribute as fairly as possible." The purpose of the research and study which characterizes this generation is not to devise a popular system of taxation—for the only popular tax is that which some one else bears—but to discover the principles which incorporated into laws capable of administration will produce just taxation. And what is justice in taxation? The question involves a consideration of the individual's relations to the state or society of which he is a part and his relations to
his fellow members of society. There is an ethical and social as well as a fiscal side of taxation.

With an unfortunately large number of persons there still appears to be an ill-defined notion that in some prehistoric time, in the infancy of the race, the "individual", to whose rights and obligations we have succeeded, entered into some sort of contract with the body politic or state, whereby the state undertook to protect the individual in life and property, and the individual on his part, as payment for this protection, agreed to yield to the state a portion of his property as a tax. This myth, purporting to describe the earliest of government contracts, might claim more than the interest of an ordinary fairy tale if it were illustrative of actual conditions. But it is not. The obligation to contribute to the state is neither proportional to, nor in any sense dependent upon, benefits received from the state. Everything essential to a contractual relation is wanting. The benefits which the state confers are entirely divorced from considerations of the source of the income required to defray the cost. That this is the actual attitude of the state, and its proper attitude, is due to the fact that there is no such thing as absolute private property. The institution of property is the creature of society; and as a part of that institution the right of the state to exact a portion of the property for social welfare has always existed concurrently with the rights of private ownership conferred upon the individual. The abstract right of the state to dictate the terms upon which private property may be held is absolute, and may properly be exercised in any manner that, without involving a breach of good faith and fair dealing, will best promote the general welfare. How much the state will exact as its share, how much it will allow the individual to retain, must depend upon the scope of governmental functions and the cost of their maintenance. The scope of the state's activities will in turn be affected by the accepted conception of the social obligation existing between man and man which the state, through the medium of taxation, should endeavor to enforce. We believe that in the present stage of our moral development and civilization the more favored in property, ability and income are not
without obligations to the less fortunate members of society; but this does not mean, as socialism and communism would interpret it, that taxation may rightly be used as a means of effecting a levelling of fortunes. Such a course would destroy all incentive to production and thrift in any society where altruism is less strong than egoism as a motive power. The millennium has not yet dawned, and we are called upon to deal with actual rather than with ideal conditions. After all, the only safeguard against spoliation by the government lies in the moral sense of the people and a correct understanding of public policy.

But passing the question of social obligations and the proper sphere of the functions of government, we find that the theory generally accepted to-day is that the individual’s contributions to the maintenance of government should be based upon ability or faculty which “requires men to serve the state in the degree that they have ability to serve themselves.”

The cost of government has grown at a rapid pace and the increase in expense is likely to continue. The attempt is made to meet this growing expense by greater efficiency in expenditure. More than mere honesty in administration is demanded, and through the requirement of budgets, more publicity and closer scrutiny of expenses and especially through the instrumentality of bureaus of public efficiency, maintained at public or private expense, our state and local governments undoubtedly receive more nearly a fair equivalent for their expenditures than at any previous time. But notwithstanding greater efficiency in expenditure, the demand for greater revenue continues and with it comes the demand for workable laws that will effect a fair distribution of this ever-increasing burden. It is more than possible, however, that much of the complaint against unequal taxation springs merely from increased taxation.

The problem of just taxation necessarily involves a consideration of where the tax really rests. He who pays the tax to the tax collector may often be so situated as to be able to recover the entire amount from another and not infrequently with a profit upon the sum paid. A tax can only
be shifted when its imposition affects price, and price can only be affected through some change either in demand or supply. It is evident that a tax upon land will not increase the demand for land nor can the supply of land be diminished; hence the tax cannot be added to the price and the tax cannot be shifted. On the contrary, the imposition of the tax will diminish the demand, and the equilibrium between supply and demand can only be restored by such a reduction in price as will render the land as desirable with the tax as it previously was without the tax. In other words, the price of the land by reason of the tax will fall by an amount equal to the capitalization of the tax at the usual rate of return upon investments. But it will be observed that the purchaser sustains no burden, however great the tax, because in the determination of price the purchaser was able to shift the taxes back upon the seller in perpetuity. The recent purchaser of land, upon which no new tax has been imposed, bears in fact no tax burden; and when he urges legislation for a diminution of his taxes he in reality asks for a wholly unmerited gift of additional value to be offset by a corresponding shrinkage in the value of the class of property to which the taxes are transferred. If a tax imposed upon buildings and improvements be considered it will be found that in any growing community the tax may be shifted. It will be effected through less activity in the erection of new buildings and the curtailment of new improvements until the demand meets the relatively diminished supply now subjected to the tax. In other words no new improvements will be made for sale or lease until the demand is such as to yield the usual return upon investments. But in a community where population is decreasing, and where the present supply of buildings equals or exceeds the demand, it would seem that the seller or lessor would be unable to shift a newly imposed tax, since the tax, under such conditions, would have no effect upon either supply or demand. That a tax imposed on a mortgage is invariably shifted hardly needs comment. The demand is conditioned upon the mortgagee’s ability to secure a normal return upon his investment. There can be no demand for mortgages that yield less than such
normal return. If the demand and supply and the general investment rates are such that a mortgagor may sell, free from taxation, his obligation bearing an interest rate of 5 per cent, the imposition of a tax will immediately check the demand and the balance with supply can only be readjusted by the mortgagor assuming the tax or increasing the interest rate enough above 5 per cent to offset the tax.

It may be said of the taxation of incomes that, if the tax be imposed upon income derived only from certain specified sources, or if it be imposed with varying rates upon amounts derived from different sources, there may be opportunity to shift the tax; but it is believed that ordinarily an income tax applied to income generally, regardless of its source, cannot be shifted. And this is in strict conformity with the law of supply and demand. The desirability and demand for those sources of income whose income is taxed will be lessened by the imposition of the tax; but if the imposition is general upon all income the demand for incomes generally will not be affected so long as the tax is less than the full amount of the income. While no rule for taxation can be discovered in any natural science, it is nevertheless evident that there are certain correct principles that must be observed if justice is to be attained.

In the organic law of perhaps most of the states there is a provision which requires that the rule of taxation shall be uniform; but it is being realized that uniformity in the treatment of all classes of property may not result in the highest attainable approach to equality of burden, and taxes so laid according to the rule of uniformity may produce results that show little regard for the principle of exacting contributions according to ability or faculty. Moreover strict uniformity is regarded by some of our reformers as objectionable because it interferes with the use of taxation as an instrument to alter economic conditions and to effect the "reforms" of which it may be said that the present supply greatly exceeds any legitimate demand. Taxation is popularly supposed to be a subject that belongs exclusively to the domain of prose, and probably nothing short of the inspiration of a great truth could have produced these lines:
"Whoever hopes a faultless tax to see, 
Hopes what ne'er was, is not, and ne'er shall be";

but the doctrine of classification is being urged by many as at least affording a ray of hope for improvement.

The principle of classification has always been in use in this country at least to a limited extent. A certain minimum of the necessaries of life has formed a class which most states have made exempt as a matter of public policy and in accord with the theory of ability. So, too, property used solely for religious and charitable purposes has properly been placed in a separate class and made exempt; such property gives no ability or faculty for meeting a tax for it represents no private gain or advantage, and the imposition of a tax would merely diminish the resources already devoted to the public well-being, or require additional voluntary contributions from the unfortunately small number upon whom the financial burden of these institutions is permitted to rest. Classification for taxation, as well as for exemption, has attended our whole national history; and frequently the basis of the classification has had in view some purpose other than that of merely producing revenue. The country has always been familiar with protective tariffs. The principle of the shifting of taxes, to which reference has been made, has been utilized in excise taxes upon liquors and similar articles where the taxes are intended to fall upon the consumer and discourage consumption. It is generally conceded by those who have given the subject proper consideration that moneys and credits, secured or unsecured, should constitute a distinct class to which the "uniform rule" of taxation should not apply. I quote the following from David A. Wells:

"The first attempt made to tax money at interest was instigated against money lenders because they were Jews; but the Jew was sufficiently shrewd to charge the full tax over to the Christian borrower, including a percentage for annoyance and risk. . . . The money lender parts with his property to the borrower, who puts it in the form of new buildings, or other improvements, upon which he pays a tax. Is not one assessment on the same property sufficient? But if you insist upon another assessment on the money lender, it requires no prophetic power to predict that he will add the tax in his transactions with the
borrower. . . . 'Money property', except in coin, is imaginary and cannot exist. There are rights to property of great value. The right to inherit property is valuable; and a mortgage on land is a certificate of right or interest in the property, but it is not the property. Labor will command money and is a valuable power to acquire property, but it is not property. If we could make property by making debts, it cannot be doubted that a national debt would be a national blessing. Attacking the bugbear of 'money property' is an assault on all property; for 'money property' is the mere representative of property. If we tax the representative, the tax must fall upon the thing represented.'" (The Theory and Practice of Taxation, p. 482.)

The ground for the exemption of mortgages and credits is not a desire to favor the money lender. Whether Jew or Gentile he has always found his protection in the higher immutable law of supply and demand. Money will command a certain return fixed by economic laws, and a necessary condition of securing a loan by a mortgagor is that the mortgagor shall receive net from the transaction what the money is worth. If the state is also to receive a contribution by reason of the transaction it is inevitable that, however laid, it must ultimately be paid by the mortgagor. The objection to a mortgage tax is that the mortgagor in effect pays two taxes. The farmer whose land is mortgaged pays more taxes than the more fortunate farmer having land of equal value free from mortgage. This is not consistent with the doctrine that men should "serve the state in the degree that they have ability to serve themselves"; for the man in debt has no more tax paying ability than the man free from debt. If the time is not ripe for the total exemption of credits and choses in action, classification for the application of a low flat rate to property of this character such as is found in the laws of Iowa, Minnesota, Pennsylvania and some other states, or the substitution of the New York method of dealing with this sort of property would appear to be a move in the right direction. Already total exemption of securities is the law of Delaware, Washington, Idaho and the District of Columbia; and in the states of Connecticut, Iowa, Maryland, Michigan, Minnesota, New York, Pennsylvania and Rhode Island laws provide for special treatment of securities for the purpose of reducing their taxation. In Wisconsin an act of 1911
provides a general income tax and exempts from property taxation moneys and credits, stocks (except bank stock) and bonds, household furnishings, personal ornaments and jewelry, one watch carried by the owner and farm tools and machinery.

The failure of the general property tax as an equitable system of apportioning the burdens of government lies chiefly in the lack of efficient administration. Assessors have been condemned because the assessment laws are imperfectly executed; but it should be remembered that assessors are subject to human limitations, and the fact that laws of a certain character are never put into full practical operation, in spite of the most drastic legislation, indicates that the laws may be as much at fault as the assessors. There is a vast difference between a mere theory and the practical execution of the theory by ordinary individuals who are not endowed with omniscience. There can be no correct theory of assessment that has not taken into consideration the difficulties of practical administration. The usual laws for valuation imply a knowledge on the part of assessors of the values of all classes of personal property beyond any possibility of attainment. The practical impossibility of reaching and correctly valuing all personal property, and the inequalities, double taxation and injustice that result from the practical operation of the laws for the taxation of personal property, especially intangible property, has brought the whole system of the general property tax into disrepute. It is probable that classification, properly employed, may remedy some of these evils. The assessment of merchants and manufacturers should be of their business as a going concern involving a consideration of net earnings and not merely the property invoiced on a fixed date. Some reasonable substitute should replace the present absurdity in the assessment of household furniture, jewelry, watches and clocks, sewing machines and melodeons, and similar classes of personal property. In lieu of assessing mineral rights it may be expedient and a closer approximation to justice to assess the net proceeds of mines as is done in the state of Montana. No classification should be made that does not insure a practical uniformity of treatment of all items coming within each particular class.
Real estate must always sustain a large share of the burden of taxation; and, to secure an equitable assessment, an advantage will be found in showing separately on assessment rolls the lands and the improvements with a separate valuation of each. In some states it is thought to be expedient to subject to a lower rate of taxation the improvements on land. This will encourage the making of new improvements. But it will be observed that even where real estate bears an apparently undue share of the taxes as compared with personal property, real estate enjoys the larger benefit from government expenditure. So, too, especially in our Western States, the social increment of value due to increasing population inures to the advantage of real estate rather than personal property. Classification may be employed for the purpose of favoring in taxation some particular classes of property, as timber lands, with a view to the conservation of our resources. But the employment of the taxing power for other than strictly revenue purposes is accompanied by so much danger of misuse that it ought rarely to be encouraged.

Railroad property should be valued as a unit, and should not be subjected to multiple taxation under the various forms of taxing real estate, personal property, franchise, special franchise, capital stock, etc. In several states—North Dakota is an example—the assessment of railroad operating property is made by a state board, but the operating property is divided into several classes, franchise, roadway, roadbed, rails, rolling stock, for each of which a separate value is to be found. But here, whatever objection to the theory there may be, there is no practical difficulty, for neither the assessment board nor the railway companies evince any interest in the values to be placed on the separate classes and at hearings before the board they are not discussed or even referred to. The value of the road as a whole is the sole matter of importance; when that has been ascertained the division of this unit value among the statutory items or classes into which the unit is divided is altogether arbitrary and a matter of indifference. The distribution of this total value, fixed by the board, to roadbed, roadway, etc., may be safely left to the discretion of the board's young
lady stenographer. In other states—New York is an example—various elements of railroad value are treated as distinct classes of property for each of which specific treatment is provided. Thus the real estate and personal property of a railroad are assessed by the local assessors for state and local taxes. The local assessment of real estate appears to be a valuation of the physical property made by a comparison with other real estate. The fact that railroad property is restricted to a single use and, if that use is not remunerative, cannot be converted to some other use—that it is not susceptible of being exchanged and used for various purposes as other property is—does not prevent its being assessed as other property. There is then levied a state tax on capital stock based upon the amount of dividends declared, and if no dividends have been declared a rate is fixed to meet the emergency. In addition to this there is levied a gross earnings tax on all intrastate business, and there is also a "special franchise" tax for state and local purposes at the rate levied on other property on the actual value, as determined by the state board of tax commissioners, of the franchises to use streets or public places; but it is said that the state board has never made known its method of determining this value. Whether a railroad company has paid more or less than its just share of taxes under such treatment is a matter of pure conjecture. In still other states—Wisconsin and Michigan are examples—the entire railroad property is assessed as a unit and the valuation of the unit necessarily involves a consideration of physical property, earnings and the franchise which correlates and unites the various items into one organic whole operated as a single machine. The value of a railroad lies in the net result of its operation as a whole, and there lies also its tax-paying capacity. To disintegrate a railroad for purposes of taxation into several classes of property not one of which has in reality a distinct separate existence appears to be wholly arbitrary and unscientific. Regarding the futility of treating as separate entities the physical property and the franchise and attempting to place a separate value upon each, the Supreme Court of Wisconsin said:
"It were better, as it seems, to have proceeded along the lines of the statute and the doctrine of this court, that there can be no such separation of tangible and intangible elements which will furnish any legitimate basis for the valuation of one or the other. As neither, strictly speaking, is required to be valued, but only the thing which the two in combination make, why attempt to do what lays the very basis for claims which are illegitimate though embarrassing? The departure from the needful, trying to do the impracticable, would seem to be worse than useless. One might as well try to value the life-blood of a horse or his capacity to breathe, as to try to place a value upon the visible part of railroad property separate from its rights, franchises and privileges." (128 Wis., 553.)

It has been suggested that the property of public service corporations should be subjected to higher rates of taxation than property generally because of the franchises which such corporations enjoy. But a franchise is not granted to be exercised according to the mere will of the corporation and there is always the expressed or implied reservation to the government of the right to regulate and control for the public interest and security (Cf. California v. So. Pac. R. R. Co., 127 U. S., 40). The right to regulate and control is largely an offset to the special privilege. Moreover, in the ad-valorem taxation of these corporations, where the value is largely determined by a consideration of earnings, the franchise is included in the assessment.

It is not within the scope of this paper to discuss or even enumerate the various classes that may be made the subject of more or less favorable discrimination. Enough has been said to show that the strict and rigid rule of absolute uniformity, where it obtains, may well be amended to permit specific treatment of a few classes of property concerning which a practical agreement of opinion leaves no doubt that a change is desirable. As to the right treatment of a great many classes of property there is the widest difference of opinion. But it is not desirable or wise in most of our states, in order to make available a modification of the rule of uniformity as to a few classes, to abandon altogether the general rule of uniformity as a restriction upon our law makers and give them full power to classify at will. Constitutions are bulwarks of protection for the weak. Complete freedom to
classify and discriminate may be exercised unfairly as well as in the furtherance of justice. If the free operation of economic laws is not obstructed there will be less need of classification than some suppose. The power to classify, if unrestricted, may be evoked to such an extent for social and economic reforms of doubtful value as to destroy the possibility of any true system of taxation. The power to classify may be used for the most invidious class legislation. The politically strong may vote for expenditures and provide that they shall be met by the politically weak. The doctrine of ability or faculty as a basis for apportioning taxes has not acquired the compelling influence with our legislators that some advocates of legislative freedom in classification appear to assume. On the contrary, legislation is often a mere compromise of conflicting selfish interest. As said by Professor Seligman, "even at the present time, those who cheerfully seek to contribute their share to the common burden form the exception, not the rule." (Essays in Taxation, p. 5.) Our legislators, even the lawyers among them, are not generally students of taxation. Dr. Ely, in his "Taxation in American States and Cities", deplores the fact that our lawyers have never grasped the fundamental principles of taxation and compares our bar with that of France and Prussia where no one is admitted to practice who has not studied political economy. The lack of intelligence and even interest on the part of the average business man in matters of taxation is notorious. The subject is generally regarded as dry and uninteresting.

Where uniformity is the rule, those who are responsible for taxes must bear a share of them; where uniformity is not the rule, there is the temptation to unduly increase the taxes that others are to bear. "The appetite", says Professor Walker, "for plundering the accumulated stock of wealth, once aroused, may become a formidable social and political evil." (Polit. Econ., p. 454.) Taxes should be levied and collected by laws capable of exact and universal application, and tax laws should be stable and not subject to frequent or ill-considered changes. Stability is not promoted by an unrestricted power of classification.
Judge Cooley has well said that changes in tax laws "are always liable to be oppressive in individual cases, and for this reason are not to be made except to cure positive evils. Mere inconvenience, to which the people have become accustomed, or even impolitic or unequal taxation to which trade and business have adapted themselves, are usually less harmful than considerable changes in the law with a view to their correction." (Cooley on Taxation, p. 174.)

Our conclusion is that classification may be an aid to a just system of taxation when employed with expert skill, but that the time in most communities has not arrived for casting aside all constitutional protection for an uncertain legislative discretion. The constitution should itself prescribe the extent and character of the departure from uniformity.
DISCUSSION—CLASSIFICATION

Mr. T. S. Adams, of Wisconsin: I was very much interested in Mr. Dudley's paper and I want to ask him if he has reached the point of attempting, even tentatively in his own mind, to formulate the constitutional limitations by which he would safeguard his classification. As I understand it, Mr. Dudley says go a bit slow in making classification perfectly free—let us have equalization with limitation. Now I know it is not fair to ask a man to do a difficult thing on the spur of the moment, but is his proposal practicable? What sort of limitations on the right of classification are we going to have?

Mr. A. S. Dudley, of Wisconsin: Let me recount a little incident that occurred last summer, in one of our western states. While visiting one of our western state capitals last summer I met a gentleman who has been connected with the state board of equalization of the state for fifteen years and is now a member of the state board of equalization—which has the power of assessing railroads and of equalizing all property of the state. We were speaking of the subject of classification and I asked him what would be his idea of carrying out the authority, if it were given, to classify. "Well," he said, "real estate is probably assessed at about twenty-five per cent of its value in this state; I would assess personal property at fifty per cent and railroad property at say forty per cent." "Why," I asked, "would you do that"? "Well, farms and lands out here are assessed—all of them are assessed; it is all in sight; none gets away; and when we find a man with a dollar of personal property we may fairly conclude that he has concealed at least that much more, so we will double his assessment as compared with real estate." And then I asked, "Why do you assess railroad property at forty per cent, so much higher than real estate;
it does not escape the view of the assessor?" "Well . . . public sentiment demands it." [Laughter.] Now, gentlemen, it is that sort of classification that I am afraid of; and if you want to permit classification I think you can put something into your constitution so as to apply a different rate say to mortgages, credits and securities generally. Can't you frame up something? I am sure you can, Professor Adams, that would limit the legislation and yet at the same time give them power to proceed along right lines.

Mr. L. E. Birdzell, of North Dakota: In connection with the question that Dr. Adams put to Mr. Dudley, I would like to ask whether Mr. Dudley has considered that decision of the United States Supreme Court which interprets the constitution of the United States—I think the fourteenth amendment—as being a limitation upon the power of the state to classify. If I remember the decision correctly the court lays down the principle that all classification must have behind it something rational; there must be some reason for the classification lying in the background that justifies it, and without that reason the classification becomes arbitrary and amounts to the taking of property and to a denial of the equal protection of the laws. It seems to me that that is an ample limitation upon the power of classification and a practical one; and because of the existence of that limitation we need not concern ourselves with the question whether state constitutions are to limit the power of classification. It is very difficult in a constitutional amendment to so safeguard the matter of classification as to give the requisite freedom and at the same time secure the thing Mr. Dudley has spoken of.

Mr. Clement F. Robinson, of Maine: I think that Mr. Dudley would be interested in hearing about the amendment to the constitution which was adopted in Maine this fall. Our constitution has had this limitation on the power of taxation:

"Section 8. All taxes upon real and personal estate, assessed by authority of this state, shall be apportioned and assessed equally, according to the just value thereof."
This provision gave us the so-called "uniform rule", although not so definitely expressed as in some other states. It has always been held in Maine that the legislature could exempt entirely any class of property; accordingly a few years ago mortgages on real estate located within the state were exempted from taxation to the holder. But the Supreme Court of the state had held that it would be unconstitutional to classify property for taxation at different rates. In order to permit of such classification to a limited extent, the people have now adopted the following clause additional to the section which we have always had:

"But the legislature shall have the power to levy a tax upon intangible personal property at such rate as it deems wise and equitable without regard to the rate applied to other classes of property."

This expressly allows this one kind of intangible property to be taxed at a special rate. But it does not extend to any other kind of property. Railroads as a class, and railroad property as a class, cannot be affected one way or the other by reason of this amendment. All classes of property except only "intangible personal property" unless exempted from taxation, must still be taxed under the general property tax, at a rate uniform for all classes of property.

As time goes on, and people become enlightened, as we hope they will by these conferences, it may be that future amendments will be adopted, pressing in the wedge which has now been thrust into the uniform rule of taxation. In the conservative states of the east it may be that in such a way as this will come the solution of the difficulty with the uniform rule of taxation. In Maine it is very doubtful if the amendment would have been adopted, if it had proposed to permit a wide-open and unlimited classification of property. Some such result as Mr. Dudley has mentioned would have been feared sufficiently to rouse antagonism to the amendment. But as it was, the amendment was so mild, that it was adopted by the people with hardly any opposition and almost without discussion, and by an overwhelming majority of those voting.

MR. JOHN A. FAIRLIE, of Illinois: I wish to call attention
in this connection to a proposed constitutional amendment that was recommended by the state tax commission in Illinois three years ago. That is somewhat along the line of the amendment just adopted in Maine, but is a little broader. That proposed amendment undertook to remove the restrictions so far as personal property was concerned, leaving all classes of personal property open to classification and exemption, but retaining the uniform rule so far as real estate was concerned. It would permit classification of mortgages and intangible personalty and also other kinds of tangible personalty, and offers at least one method of getting at the end Mr. Dudley seemed to have in mind.

MR. A. E. HOLCOMB, of New York: I do not think Mr. Birdzell has the correct understanding of the supreme court decision referred to, because if I fully understand Michigan Central Railway versus Powers it does not fully bear out his suggestion. In the Michigan Central case the court distinctly held that the legislature could even single out railroads and tax them at any rate. Now, as to the phraseology of a constitutional amendment which would set up a sign board indicating simply that equality is to be the rule, why should we not adopt the form suggested in Kansas, I think, or something in substance as follows: "The legislature shall have power to establish and maintain by general laws a system for raising state and local revenue and may classify the subjects of taxation, so far as their differences reasonably justify the same in order to secure a just and equitable return from each, but never in such a manner as to impose unreasonable or discriminatory burdens upon property or business." We need some such expression to prevent absolutely arbitrary classification and to permit a court to acquire jurisdiction in such cases.

MR. L. E. BIRDZELL: That is practically the language used by the Supreme Court of the United States in the decision to which I referred.

Mr. T. S. Adams, of Wisconsin: This question is perhaps more important than appears on the surface. I think it very distinctly possible that the public service corporations may be arrayed in opposition to the doctrine of classification in the next few years. I see a great deal of justification for that attitude. I haven't the slightest doubt in my own mind that if classification is authorized in every state it will be grossly abused in some. The amendments introduced in Louisiana, and published in the sixth volume of our proceedings supply conclusive proof of this fact; but notwithstanding that fact—which I want to admit most fully and freely—I question the wisdom of any opposition to the doctrine of classification. Any legislature guided by an ingenious body of men that wants to "soak" a public service corporation can do it under practically any constitutional provision of uniformity. More important still is the psychological element of the situation. What we want to inculcate is a real desire on the part of everybody to press forward towards real equality unless there are circumstances which palpably justify the departure from it. That is the goal. It is that feeling in the public mind which affords the only real protection to the deserving public service corporations of this country; and I have a conviction that the way to develop that state of mind is not by multiplying constitutional limitations but by abolishing them. With respect to the point raised by Mr. Birdzell, is it not true that in the fifteenth amendment and in legislation applying the fifteenth amendment or decisions interpreting it, will be found explicit provision to the effect that no state may make an unreasonable classification.

Mr. Charles H. Shields: I was very much impressed with Mr. Dudley's paper, and I was pleased that Prof. Adams asked the question. It seems to me that it is possible to have a constitutional provision for the classification of property which will not be objectionable, which will protect the taxpayer from any abuse that a vicious legislature, should there be such a one, might attempt. I would have the constitution read: All values within the state may be subject to classification for the purpose of taxation: That upon the
various classes of property subject to taxation the tax rate imposed on the different classes of property for state purposes shall be uniform throughout the state, provided, however, that in no case one class of property shall be subject to a tax rate exceeding 25% in excess of that placed on any other class of property within the state. Such an amendment would it seems to me serve the purpose, and safeguard the taxpayer, and would allay any fear of the single tax slipping in, which is at this time an element with which we must reckon. If such an amendment were adopted we would not have to depend upon a supreme court decision to keep the legislators on the level.

Mr. A. S. Dudley, of Wisconsin: I think if any one is particularly interested in this matter of constitutional protection as it is given by the federal amendment he will find something of interest in "Judson on Taxation," in a chapter which I think is entitled "The Equal Protection of the Law." If I remember rightly the statement is made in that chapter that while taxation does come within the purview of the amendment, yet there has never been a case before the federal supreme court where a state law was set aside because it infringed the federal amendment. As a matter of fact the federal courts are very loath to set aside any state legislation with respect to state revenue. The law of inheritance taxation in Illinois came before the supreme court. Under the Illinois law there is an exemption of $20,000 and it was urged that this provided an unreasonable classification. The supreme court however upheld the law. But this question was raised: would a law be valid that instead of exempting $20,000 from an inheritance tax, provided an exemption of $20,000 of property held by each individual from the operation of the general property tax. That of course would simply be placing all taxes upon the rich—I am not sure whether it was the court or Mr. Judson who thought that in such a case the federal amendment might be invoked for protection from such classification; but it is only in a very extreme case that the federal courts or the federal constitution can be successfully invoked for relief and protection against an unfair state revenue statute.
Mr. John E. Brindley, of Iowa: The suggestion made by Professor Adams that the constitutional restrictions as to the classification of property for purposes of taxation or the amount of taxes levied have little or no value and should therefore be removed, raised a question in my mind regarding conditions in states where a separation of revenue sources exists. If state taxes are to be derived from public service corporations, inheritances, fees, etc., without the levy of any direct tax on real estate, may there not be a tendency on the part of the General Assembly to impose a greater relative burden of taxation on the property of public service corporations than is levied against the property of individuals? I would like to ask Professor Adams if such might not be the case?

Mr. T. S. Adams: I still think there would be room for indefinite discrimination against the railroads under that. With their present attitude I do not believe that the courts would attempt to question the legislative interpretation of such a limitation. I am inclined to think that it is a question of psychology and that in the long run the absence of all restriction will conduce to fairer treatment than the existence of almost any sort of restriction in the constitution.

Mr. Charles Lee Raper, of North Carolina: It might be of interest to tell you about the proposed amendment that has been submitted in North Carolina. The legislature has just adjourned and it has proposed an amendment providing for classification and in substance to this effect; that the general assembly may classify when it does not conflict with natural equity and justice. Whenever the supreme court shall declare that the classification has been contrary to natural justice and equity then such classification falls. I do not know what the supreme court would decide is "natural inequity." I had something to do with this constitutional proposition, but it was the lawyers in the constitutional convention who insisted that the words "natural equity" should be included.
Mr. A. C. Pleydell, of New Jersey: I believe that if there were more freedom in the constitution there would be a disposition to treat every one fairly. I think those states that have been free will show by experience that the public service corporations have had fair treatment. I also make this point: that any suggestions we have had for putting loose language into the constitution like "natural justice," is simply turning the law-making power over to the judiciary instead of putting it in the hands of the legislature. Instead of letting the legislature represent the people directly, "natural justice" would put it in the hands of the courts. I prefer to leave it in the hands of the people. [Applause.]
REPORT OF COMMITTEE ON TAXATION OF PUBLIC SERVICE CORPORATIONS

CHARLES J. BULLOCK
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The committee upon the taxation of public service corporations was asked to consider solely the question of "the equalization of taxation upon public service corporations subject to ad-valorem taxation." We have confined ourselves to this single subject.

After conference with the secretary of the tax association, the chairman of the committee formulated last spring a questionnaire designed to bring out fully the views of members of the committee; and by correspondence the committee began an interchange of opinions which continued during the spring and summer. On October 11 a tentative report, based upon the results of the correspondence, was submitted by the chairman for the consideration of the committee; and meetings were held at Buffalo on October 22nd and 23rd. The committee submits the following report which was adopted by a unanimous vote:

I.

The taxation of public service corporations by the several states is characterized by such diversity of methods that it is difficult to present any general statement upon the subject. Taxes upon property, capital stock, franchises, and earnings, are all employed, sometimes alone, and sometimes in combination. Little uniformity is found in the methods applied to the same class of corporations, and between different classes the diversity is naturally greater. It happens, however, that most of the problems connected with the equalization of the burden of taxation can be studied to best advantage in the taxation of railroads, and a statement confined to that class
of corporations may serve as a useful introduction to this report.

At the present time three of the states\(^1\) tax gross receipts in lieu of other taxation of the franchises and operating property of railroads. At least seven\(^2\) other states, however, employ gross receipts taxes in addition to, or in combination with, taxes upon property or franchises.

Delaware levies a tax of fixed amount in lieu of all other taxation, and Pennsylvania imposes a tax levied at the rate of five mills upon the capital stock. In these states, therefore, the rate imposed upon railroads bears no relation to that levied upon other property subject to taxation.

In Maryland railroad property is locally assessed, and subject to taxation at local rates. In the remaining states all or some part of the railroad property, usually that described as operating property, is assessed by some state board or commission. These states tax railroads according to some kind of an ad-valorem method, but exhibit none the less considerable diversity.

Connecticut taxes the outstanding stocks and bonds at the rate of 1.1%, which is assumed to represent the average rate imposed upon other property. Massachusetts taxes the capital stock at an average state rate, and deducts from the value of the stock the value of real estate and machinery subject to local taxation. In Rhode Island the tangible property is subject to local taxation at local rates, while the state levies a tax upon gross receipts in lieu of taxation of the intangible property.

The remaining states fall into two classes. Four states, namely, Michigan, Wisconsin, New Jersey, and New Hampshire, tax railroad property as a unit at an average state rate. Michigan and New Jersey impose the average nominal rate of state tax without equalization; while Wisconsin attempts to ascertain through the state tax commission the actual state rate, and New Hampshire has in the past equalized the valuation by reducing it so as to correspond with the

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\(^1\) Maine, Minnesota and California.

\(^2\) Maryland, Ohio, South Carolina, Texas, Virginia, Pennsylvania, and Rhode Island.
valuation of other taxable property. We understand, however, that the New Hampshire commission now assumes that other property in the state is taxed at its full value, and therefore assesses railroads at the full valuation.

The other states provide for the assessment of all railroad property, or railroad operating property, by some kind of a state board or commission, and then apportion the assessed valuations among the local taxing districts for taxation at local rates. Of these states most, if not all, authorize some sort of equalization of railroad assessments with these placed upon property locally taxed. In Oregon this equalization seems reasonably effective, and in perhaps a few other states partial relief from taxation is afforded. But in general the state boards are unable to cope effectually with the problem under existing provisions of law, and in some cases make no attempt to do so. Recently Kansas, Arizona and Colorado, and in somewhat less degree New Mexico, have made systematic efforts to bring local assessments of every class of property up to the full value, with the result that the rates now imposed upon public service corporations in these states are tending to approximate the actual rates paid by other property.

It will be seen that the prevailing practice is assessment by a state board or commission, of at least the operating property of railroads, and the subsequent apportionment of the taxable values thus ascertained among the local taxing districts. Comparatively few states have provided effectually for the equalization of taxation. Four states tax railroad property as a unit at an average state rate, but of these Wisconsin is the only one that now equalizes such taxation. Massachusetts taxes the capital stock at an average state rate which does not take into account the undervaluation of property subject to local taxation, and Connecticut taxes the stocks and bonds at a fixed rate of 1.1 per cent which may be assumed to represent the average imposed upon other property. Your committee finds therefore that only in a small minority of states is provision made at the present time for equalization of taxation upon public service corporations subject to ad-valorem taxation.
Of the states that impose taxes upon gross receipts in lieu of other taxation of railroad property, we understand that Minnesota and California have endeavored to make the rate of taxation correspond as nearly as possible with the average imposed upon other property. In Maine we understand that special conditions have led to the imposition of a rate of taxation upon gross receipts that is somewhat lighter than that imposed upon other property.

The method of taxing other classes of public service corporations cannot be considered in detail. It appears, however, that in most cases telegraph and telephone companies are taxed by methods similar to those employed in the taxation of railroads. The same thing is true also, though perhaps not in equal degree, of express, parlor car, and other transportation companies. Where ad-valorem methods of taxation are employed it appears that only a small minority of the states have as yet undertaken to equalize taxation in any effective manner.

II.

Your committee first directed attention to the question whether there should be any equalization of the taxes imposed upon public service corporations under the system of ad-valorem taxation. Upon this subject we find three theories which require consideration.

The first theory is that public service corporations should be subject to special taxation much heavier than that imposed upon other classes of business or property because they hold special franchises of great value. In some cases also these franchises have been secured without adequate compensation and by methods that will not stand close examination. In this view of the case taxation is a logical and convenient means of recovering for the public treasury income that rightfully belongs to it.

A generation ago, before states and the nation had undertaken to regulate effectively, through commissions or otherwise, the service and charges of public service corporations, this theory offered a natural and logical remedy for some of the evils of unregulated monopoly. Taxes upon the
property of unregulated monopolies will tend generally speaking to fall upon the monopolists, and by their agency the government may secure a share of the profits of the monopolies. But the situation changes when public service corporations are brought under effective regulation. Under the latter condition regulation of rates and service must proceed upon the theory that the corporations should be allowed to earn a reasonable return upon a fair valuation of their property. Special taxes upon regulated monopolies, therefore, merely increase the expense of providing the service and increase the rates necessary to yield a reasonable return, or else diminish the resources available for extending and improving this service. Effective regulation completely alters the incidence of special taxes upon monopolies, and at the same time removes the evils which led to the demand for such taxation.

Your committee believes that it is through public regulation and not through taxation that a correct policy towards public service corporations must be worked out, and holds that our theories of taxation should be based upon the assumption that public service corporations are to be subjected to public control. We therefore conclude that this first theory is based on conditions that are rapidly passing away and is unsuited to the present era of regulated public service corporations. Of course our reasoning does not apply to existing contractual payments, sometimes called taxes, or require the relinquishment of such payments without compensation in the way of reduced rates or increased service. These payments present a special case which is an exception to the general rule.

A second theory assumes effective regulation of public utilities, and then holds that such regulation makes it unnecessary to equalize taxation of public service corporations with the taxation of other business or property. Railroads, for example, might be exempted from all taxation provided that their charges were reduced or service improved in a measure corresponding to the benefits derived from such exemption; while, upon the other hand, railroad taxes might be increased to any desired extent without injustice to the roads, provided rates were increased in corresponding degree.
In the former case the public would secure untaxed service; in the latter the government would employ the railroads as an agency for the collection of heavy taxes upon transportation. In neither case are the interests of the railroads affected, either favorably or adversely.

If one holds that in taxation there can be no such thing as equality, and that governments should be guided solely by the principle of plucking the most feathers with the least squawking, it is possible to accept this theory; and either exempt public service corporations, or single them out for special taxation. No special favor will be shown the corporations in the one case and no injustice done in the other; the whole question is one of feathers and squawking.

Again, if we hold to the principle of equality of taxation but consider merely equality in the taxation of different classes of investments under the property tax, no inequality would arise from the adoption of this second theory. Regulation of rates and services would transfer from the owners of public service corporations to the consumers of the services the benefits of tax exemption or the burdens of special taxation.

But if we interpret the principle of equality broadly and consider the effect of this policy upon different classes of citizens, we shall find the second theory untenable. Your committee believes that it is necessary to consider carefully the interests of two classes of people, the taxpayers and the consumers of the services of public service corporations. It is sometimes assumed that between these two classes there is substantial identity of interest. It is supposed, for instance, that, if railroads are exempted, the persons who receive untaxed services are the same ones who bear the new taxes levied in order to produce the needed revenue; and that if, on the other hand, special taxes are imposed on railroads, the effect of such taxes is the same as that of taxes levied upon persons or property generally. Such an assumption is inadmissible.

With corporations national in scope it may be true that, if we leave out of account citizens residing abroad and foreigners residing temporarily in the country, the persons that
consume the service are the same body of people that must pay the taxes; but it is by no means true that the extent to which particular persons use the service is the measure of the contributions they make to the national revenues. Even if all taxation were direct, and were, in fact as well as theory, levied proportionally upon property or income without exemptions of any description, it would be certain that all taxpayers would not use the services of public service corporations in proportion to the amount of their property or income. When we consider that direct taxation is not necessarily proportional, either in theory or in actual operation, and that exemptions are both numerous and important, it becomes evident that the assumed identity of interest between consumers and taxpayers does not exist. With services local in scope the case is even stronger, since many taxpayers are likely to be non-residents, while the service may be used extensively by persons who are employed in one locality during the day but have their domicile elsewhere. What identity of interest in this matter can there be between the taxpayers of a large city and the army of suburbanites using the local transportation facilities?

Since the interests of taxpayers and consumers are not identical, it follows that exemption of public service corporations from taxation confers a special benefit upon consumers at the expense of taxpayers; and by a parity of reasoning it follows that the imposition of special taxes upon such companies relieves the taxpayers at the expense of the consumers. In exceptional cases special considerations may justify the grant of what is in effect a bounty to consumers, or justify the imposition of special taxes upon them; the rule of equality is not an absolute one which admits of no exception. But your committee holds that, as a general proposition, this second theory is inconsistent with the principle of equality in taxation, and for this reason we are compelled to reject it.

There remains the third theory, that the taxation of public service corporations should be governed by the general rule of equality, which theory your committee approves. We hold that equality should be the controlling principle in govern-
mental affairs, and that in none is it more necessary than in the matter of taxation. Absolute equality, of course, may be difficult and even impossible of attainment; in taxation, as in other affairs, we are obliged to do the best we can under all the circumstances. But the ideal should be equality, and in practice we should never lose sight of that ideal.

Equality of taxation, however, must be real and not formal merely. Where conditions differ widely, equality cannot be obtained by an iron rule of uniformity. Similar treatment of things essentially dissimilar produces inequality, not equality, as is well shown by the experience of the American States with the general property tax. This was recognized long ago by the Supreme Court of the United States, in a familiar case in which the following language occurs:

"This court has repeatedly laid down the doctrine that diversity of taxation, both with respect to the amount imposed and the various species of property selected either for bearing its burdens or for being exempt from them, is not inconsistent with a perfect uniformity and equality of taxation in the proper sense of those terms; and that a system which imposes the same tax upon every species of property, irrespective of its nature or condition or class, will be destructive of the principle of uniformity and equality in taxation, and of a just adaptation of property to its burdens."

Real equality in taxation, then, requires careful consideration of circumstances and conditions; in other words it requires discrimination and classification. This tax association has from the beginning upheld the doctrine of classification, and in the successive conferences held under its auspices this doctrine has rarely been called in question. Your committee, in upholding the principle of equality, emphatically asserts the necessity of classification; and holds that, without classification, real, as distinguished from formal, equality, is absolutely unattainable. Our tax laws must recognize the economic differences of the various classes of property. Household effects, intangible property, forests,—these and, doubtless, other classes of property, need to be segregated, and treated as the circumstances of each class require. In short,

1 Pacific Express Company v. Seibert, 142 U. S., 351.
equality does not mean a uniform rule of taxation such as the constitutions of so many states now prescribe.

But classification can be approved only so far as the circumstances of each case justify it, and the presumption is always in favor of uniformity. Separate classification of any class of property is justified only so far as the economic characteristics of the class make such a course desirable and even necessary. The burden of proof undoubtedly rests upon the advocate of classification, and he should expect to be required to prove his case. There can be no justification for the claim sometimes made, both by advocates and opponents of the doctrine of classification, that the mere acceptance of that doctrine destroys the presumption in favor of uniformity and makes it unnecessary to consider the relative burdens imposed upon different classes of property and business. The aim should always be to secure equality, and classification is defensible only as a means to the end of securing real, as contrasted with formal, equality.

So far as the taxation of public service corporations is concerned, your committee is unable to find any good reason for giving such companies a separate classification. No peculiar difficulties are encountered in finding and assessing the property of such companies. No reason appears why consumers should be given untaxed service at the expense of taxpayers, or why taxpayers should be relieved at the expense of consumers. Exceptional cases may, of course, be found; but these should be dealt with as they arise. The general rule should be equality of taxation of public service corporations and of all property which is not for good and sufficient reasons accorded a special classification. In other words, the taxation imposed upon public service companies should be the same as that imposed upon property subject to the full rate of state and local taxation.

It will be observed that we do not think that the rate imposed upon public service corporations should be reduced because some other kinds of property may be exempt or may be given a special classification and taxed at a lower rate. Such exemption or special classification should never be made except for special reasons relating to the economic na-
ture of the property concerned and in no way pertinent to property left unclassified. The existence of such special classes of property in no way affects the status of others, and furnishes no more reason for separately classifying public service corporations than it affords for extending similar treatment to real estate. Public service corporations should be taxed like other property subject to the full rate of state and local taxation unless it can be clearly shown that peculiarities inherent in this class of property justify a separate classification. If it is said that existing or proposed exemptions threaten to impose an excessive burden upon property remaining taxable at the full rate, this consideration furnishes a reason for not making the exemptions rather than a justification for other separate classifications.

III.

Assuming that public service corporations should be taxed at the same rate as real estate and such other property as may be subject to the full rate of state and local taxation, it remains to consider certain questions concerning the application of this principle. The first is whether the principle of equality requires ad-valorem taxation in all cases and forbids the use of special taxes. We are clearly of the opinion that it does not. The rates of specific taxes, even taxes upon gross receipts, can be readily adjusted from time to time so as to make them substantially equivalent to the rates imposed upon all unclassified property. In this manner substantial equality of burden can and should be secured. Equality, as we have said before, does not imply uniformity of method in all cases, or exclude diversity of method when differences of conditions make it desirable.

A similar answer must be given the second question: Is the principle of equality violated when public service corporations are taxed, as units, at an average rate of ad valorem taxation which represents as nearly as may be the average rate of local taxation in the state? Here again, we reply, real and substantial, not formal, equality is the end at which we should aim; and in certain cases this may be more readily and certainly attained by state assessment at an average rate,
than by local assessment at local rate. This is especially true of such corporations as railroads, the operating property of which may be located in many or even all the counties of the state.

The third question concerns the method of valuation. If the valuation of public service corporations is determined by capitalizing net earnings or ascertaining the value of outstanding securities, it is evident that all intangible assets are included in the assessment; and it is the practice of most of the states to disregard these elements in the taxation of other classes of property. Can such diversity of methods be reconciled with the principle that taxation should be equalized, or does equality require that intangible assets be taken into account in all cases or else disregarded in all?

Abstractly considered, there seems to be no doubt that it is inconsistent with the principle of equality to value the property of public service corporations by methods that include intangible assets and to value other property by methods that exclude them. Since we do not consider it practicable to introduce methods of valuing public service corporations that shall exclude these elements of value and tax the companies upon the valuation of their tangible assets solely, we hold that equality can be reached only by including the same elements in the valuation of other classes of property that are not given a separate classification. With corporations this can be done without difficulty. With other classes of property and business we believe it is extremely difficult, and probably impossible, to tax intangible assets equally under any system of property taxation, and that the difficulty cannot be solved until the states are ready to adopt some form of income taxation. In other words the inequality which we encounter at this point is inherent in the nature of the present system of state and local taxation and cannot be eradicated without fundamental changes in this system. Between different classes of corporations, however, there should be no difficulty in securing substantial equality in the methods of valuation, and this should undoubtedly be done.

The fourth and final question relates to the equalization of tax rate itself. Property subject to local assessment is
often undervalued, and some classes of it largely or wholly elude the taxgatherer. The result is that the rates of local taxation are greatly in excess of the rates which would prevail if all property were assessed, and at its true value; so that any class of property that is assessed at its true value is subject to grossly unequal taxation. This matter was well treated by the committee of this association which in 1911 reported upon "The Taxation of Banks and Financial Institutions."^1

The committee holds that, whether public service corporations are taxed at local or at average state rates, they should be subject to the true, and not the nominal, rates of state or local taxation. So long as undervaluation of other property continues, therefore, we hold that either the valuation of public service corporations should be made on the same basis as that of other property, as is the practice in a few states, or that the corporations should be taxed at the true rate imposed upon other property, as is the practice in Wisconsin. Better still would be the eradication of the evil of undervaluation of property by the local assessors as is now attempted in Kansas, Arizona, Colorado, and New Mexico; but this must necessarily be a work of time, and in the interim public service corporations are entitled to fair play.

Signed: Charles J. Bullock,
Francis N. Whitney,
Carl C. Plehn,
Samuel Lord,
Sam'l T. Howe,
H. G. Hayes,
George G. Tunell.

^1 Proceedings of the Fifth Conference, 313-224.
Mr. J. Frank Adams, of Colorado: I would like to ask Mr. Bullock whether the committee discussed the question of the rate per cent to be applied in the capitalization of earnings of the several public service corporation—that is whether one per cent might be applied to railroads and another per cent to public service corporations having a definite existence and another to public service corporations subject to unusually large obsolescence; and also whether or not it considered the question of adopting a standard percentage for operating expenses as compared with the amounts of operating expenses actually returned in the reports of the several companies. I might explain that it has been argued before the commission in Colorado that for capitalizing the earnings of some companies, such as travel companies, which have a definite existence, a larger percent should be used than in the case of railroads. With respect to the operating expenses it seems to me that if we had some standard per cent it would be better, because if some company is very economical in its management it certainly shows a larger net upon which the capitalization of the earnings is based.

Mr. Charles J. Bullock: Our committee was obliged to do most of the work by correspondence. We have had two meetings here at Buffalo, but the greater part of the work was done by correspondence through the spring and summer. The result was that we were unable to consider a great many very important and very practical questions, such as the gentleman suggests. We selected questions which on the whole seemed to be of the largest interest, and also questions which have been referred to continually in the discussions of this association. In this report we were obliged to content ourselves first with the general principle as to whether there should be equality, and then with the discussion of three or four questions only connected with the application of that
principle. Neither of the questions raised by Mr. Adams came before the committee and any expression I might make would be my own personal opinion.

Mr. A. C. Pleydell, of New Jersey: There is one point in the report that should not go by without discussion; that is, the suggestion of a similarity between what is termed the intangible value attaching to public service corporation property, and intangible value as attaching to other forms of property. This intangible value of public service corporation property is of two kinds. One is called in the state of New York "special franchise" value, meaning the right or privilege of occupying a public highway; the other is the ordinary franchise value of corporations which have private rights of way, and enjoy the right of eminent domain, and also under our new forms of public utility laws and regulation a virtual monopoly. Most of the states now prohibit the building of competing lines that will not be profitable in operation.

The intangible values of the individual's property and business are of a different character. They relate more to the man himself than to the kind of business he conducts, they are of a fluctuating character and may be taken away by a competitor any minute, and may die with him, or his firm, or employees. In other words, the intangible asset of the ordinary business is good will.

In a line of decisions beginning with Judge Earl in the special franchise cases it has been held that public service corporations can hardly be said to have good will, especially when they have an established monopoly. And the decision of the United States supreme court in the Consolidated Gas case, although that was a rate making case, carries with it the dictum that good will is hardly an element, that there is very little risk attached to a monopoly like supplying New York with gas. On the other hand, the intangible value of ordinary business property is exposed to competition and risk, and it seems to me there is a distinction between the two classes of intangible value, that is a justification for a different treatment.
SEVENTH SESSION

Saturday Morning, October 25, 1913

CHAIRMAN—ZENAS W. BLISS, RHODE ISLAND

Program

   C. M. Zander, Chairman.

2. Discussion—Taxation of Mines.

   Chairman, Fred R. Fairchild, of Yale University, New Haven, Conn.

4. Discussion—Committee Reports.
REPORT OF THE COMMITTEE ON TAXATION OF MINES AND MINERAL LANDS

C. M. Zander

Chairman Arizona State Tax Commission, Phoenix, Arizona

Mr. Chairman and Gentlemen of the Conference: Your Committee on Taxation of Mines and Mineral Lands begs leave to submit the following report:

The subject submitted to the committee is an exceedingly complex one, and on many of its phases the committee feels the need of longer time for study and investigation. For that purpose it is recommended that the committee be continued. Certain fundamental principles of great importance, however, can be safely formulated at the present time:

I

First, your committee believes that there is nothing in the condition of the mining industry which entitles it to greater leniency of treatment than the great mass of real estate and other property subject to the general property tax. The argument is sometimes made that the "conservation" of the mineral resources of the country requires and justifies reduced taxation upon mineral wealth and properties. This argument we believe to be unsound. Taxation exercises an important, but far from a controlling, influence over the rate at which mineral deposits are exploited and exhausted. Whatever sound public policy may require with respect to the exploitation of mineral resources, the end must be achieved by means other than reduction or modification of the tax burden.

II

The mineral content and value of unexplored and undeveloped ore bodies, patented mines and mining claims is fre-
quently so uncertain that for this class of properties there is ample justification for conservative treatment and even for postponing the full possible claim of the state until actual knowledge of the situation can be obtained. But eventually and as soon as possible, the burden of taxation upon such property should be equated with the burden upon general property; and no postponement should be considered unless so safeguarded as to make it sure that when the facts are known with reasonable certainty the tax contribution will be made equal to that demanded from other forms of taxable wealth. In general, we ask leave to reserve this class of mines for further investigation and report.

III

An entirely different situation, however, exists in the case of explored and developed properties—by far the most important class from the standpoint of the public revenue.

1. Such mines, your committee believes, should be valued at once and taxed on the same basis as other property. In such valuation there will necessarily be an element of uncertainty. This exists in the valuation of all property, particularly land and natural resources which have no reproduction’ or ‘reduplication’ value. This uncertainty indeed characterizes all ad-valorem taxation; but in other fields of taxation it is not deemed serious enough to call for the substitution of indirect for direct methods of taxation. Such substitution is merely to move from the frying pan to the fire. We do not believe that it is called for in the assessment of this class of mines. What is required is a set of conscientious officials endowed with impartiality and industry, assisted by the necessary expert aid and furnished with all the data and information procurable regarding the properties they are called upon to assess. With these conditions satisfied, the element of uncertainty will be cared for by the exercise of reasonable judgment, as satisfactorily as the same element is taken care of in the assessment of city lots or public utilities.

2. Real ‘uncertainty’ calls for conservative judgment, and in the properties discussed in paragraph II above possibly
for special methods of taxation. What is objected to is the custom, prevalent in some places, of extending the cloak of "uncertainty" over properties whose commercial wealth or value can be determined as safely as most large properties, and under its cover relieving the most valuable and successful mines from part of the burden which is laid upon the manufacturer, the merchant and the farmer.

3. In valuing mines of this class it is particularly important that assessing officers and their experts should have free access to all the information and data in the possession of the owners and operating companies, and that such information should be supplemented and strengthened by the right, freely exercised and used—and explicitly conferred upon assessing officers—of examining the property and making their own estimates of mineral content, quality of ore and all other physical conditions involved in the appraisal. The policy of secrecy, of withholding information, of shrouding the conditions which affect value in mystery has out-lived its usefulness in the present state of American taxation. In Michigan, Wisconsin, Minnesota and other advanced states such information is freely given and has not been abused. This is the wholesome relation and should be the general relation existing between the state and taxpayers. The information supplied by mining companies may, upon their request, properly be regarded as confidential; but to withhold it altogether simply blocks the attempt to equalize the taxes imposed upon successful mines with those laid on other forms of property.

4. We are opposed for the class of mines now under consideration to the so-called gross and net methods of taxation. Gross income bears no uniform relation either to net income or to value. A mine with a gross income in any year of $100,000 may have lost money and have no more ore to mine, or it may have made $50,000 and have thirty such years to look forward to in the future, or it may have made $10,000 net and have five years of similar business to look forward to in the future. With mines of very short life the gross income method tends to make the tax excessive. With mines of long life and relatively low cost of production, the method tends to yield an insufficient tax. As between mines, it is
almost always unjust and unequal. On the other hand, to measure or compute net income one must know all those factors required in estimating the value of the mine itself. To compute net income it is necessary to deduct as depreciation or depletion a share of the investment in the mine equal to the share of the mineral content taken out in the year in question; and to measure this share or percentage one must know or estimate the amount of ore in the ground. If it be true that the value of the mine can never be known until the last ton is mined, it is equally true that the net income of the mine can never be known until the last ton is mined. The two methods of taxation require the same data.

There is much to be said for a net income tax alone or an ad-valorem tax based on a capitalization of net income. These taxes, however, have at least three defects which practically eliminate them from serious consideration: (a) American property taxes are in general so high and take so large a part of the annual income that if converted into terms of income taxation they would appear excessive. Few legislatures could be persuaded to impose an income tax on mines equal to the share of the net income regularly taken from farms, railroads and similar enterprises. (b) Secondly, the property tax is imposed year after year on idle property or property which for speculative purposes is held out of production, whereas the income tax applies only when the property is worked. So long as the property tax represents the general rule and is applied to other properties, it should be applied to mines. (c) Finally, with the income tax, uncertainty and possible inadequacy of the tax are likely to result unless the minimum output is regulated by the state.

5. We are opposed to a tax based upon the market value of capital stock, because it lends itself so readily to wild-cat schemes and because where the value of the capital stock has any solid basis or real meaning, it rests upon exploration or development data and geological inference which can be used just as intelligently by expert appraisers as by the stock-buying public.

6. In conclusion, your committee believes that the general method now used with variations in Michigan, Wisconsin and
Minnesota is, when carefully applied, on the whole the most satisfactory method of mine taxation now enforced in the United States. This method requires a measurement or computation: (a) of the ore in the mine, considering among other things the ore blocked out, the ore explored and the ore estimated to exist through geological inference and deduction, such inferences to be based on the history of the mine in question, the history of the district in which it is located, and the history of similar geological formations elsewhere; (b) the average annual production or shipment based upon the past history of the mine or—where a mine of known value is withheld from production—upon the history of similarly circumstanced mines and upon expert mining judgment; (c) the probable life of the mine, secured by dividing the ore in the mine by the annual production, i. e., dividing (a) by (b); (d) the average net profit per ton, secured by deducting from the average price per ton the corresponding or offsetting expenses. This profit per ton multiplied by the average production or shipment yields the average net profit per year; (e) the value of the mine, i. e., the present worth of the annual profit or dividend throughout the future life of the mine, using an interest rate or basis which mining experience shows necessary to induce capital to invest in the mining industry at the place where the property is situated. In valuations made by this method it is essential that allowance should be made for an amortization fund—when an equivalent allowance is not made through depreciation or exhaustion accounts—which invested say at four per cent will provide for the return within reasonable time of the entire capital, not including the capital, if any, used in purchasing the mine or the mineral itself. Whenever new ore reserves are discovered, or a greater annual extraction takes place than that calculated, or any other factor changes and disturbs the calculation, a new appraisal should be made.

In short, your committee recommends the application of the property tax to this class of mines, the assessment to be made in general accordance with the methods used in Michigan, Wisconsin and Minnesota, supplemented by expert judgment and all the relevant information that can be
secured. The most potent and convincing reason for this conclusion is found in the fact that it is this method which is used by properly qualified investors in the mining industry where, so far as possible, speculation and the gambling element have been eliminated.

C. M. Zander, Chairman,
J. G. Armson,
Celsius P. Link,
C. K. Leith,
William P. Belden,
C. S. Patterson.

**Qualifications by Mr. Patterson**

I do not concur fully in the report of the committee.

The system recommended in the report would no doubt work excellently well in states whose mineral deposits are confined to coal, iron and copper, which are usually found in great beds or deposits, the extent and value of which can quite readily be determined.

With the great mines of gold, silver, lead and the rare metals, which are being operated in many of the Western states, the situation is very different. The ore is found in veins, pockets and chimneys, varying frequently both in quantity and quality with each foot of development. There "one man can see as far into the ground as another", or no distance at all. Under such conditions the method endorsed would fail utterly.

The reasons given in the report for the elimination of consideration of the net income system do not appear to me to be adequate.

The objection that legislatures cannot be induced to pass the required laws, is a begging of the question. This association is a deliberative, not a legislative body; its object "the correct guidance of public opinion". That high standard ought not to be lowered from motives of expediency.

To the second objection, that the mine may remain idle, and therefore untaxed, it may be answered that if a paying mine is allowed to remain idle, it is for some adequate reason
unconnected with the operation of the revenue laws. Furthermore the state loses nothing by the period of idleness, for the reason that the mine pays taxes during its life only, and the taxes are therefore only postponed, not lost.

The third objection of the committee is that under the net income system, uncertainty and possibly inadequacy, of the tax are likely to result. Under this system the tax is collected at the beginning of each year, for the preceding year. No serious disarrangements of budgets should be possible, but better that result than unfair taxation. The remedy proposed by the committee, the limiting by law the minimum output, I regard as impracticable if not impossible.

With the spirit of the report, that the mining industry should be required to contribute its full share toward the expense of government, I am heartily in sympathy. I believe, however, that this association ought not to go on record against the net income system, until after a fuller investigation and discussion of its possibilities.

C. S. Patterson.
DISCUSSION—TAXATION OF MINES

MR. P. J. MILLER, of Arizona: In many states, as in Arizona, the constitution provides that for the purpose of levying taxes all property shall be assessed "at its full cash value." To the ordinary man it would seem very simple to determine approximately the full cash value of any property, or class of properties, but to those who live in a mining district the difficulty of determining the full cash value of a mine is soon realized.

From the very nature of things, a mine being below the surface of the ground cannot be seen in the same manner that a farm, or a business building, or a residence in the city can be looked at and its value determined by either the price at which it last changed hands or the price at which adjoining similar property has been sold. As has been very properly said in a legal decision in Colorado, the value of a mine is based on its ore developed and undeveloped, seen and unseen, known and unknown. Here it should be stated that there are really two different definitions to the word "mine," one being applied to a body of ore whether it is being wrought or not, and the other, applying to the various underground openings which are used for the purpose of extracting ore. One may have an enormous body of ore opened up with nothing but drill holes which might be of great value, but yet near it might be another property with miles of underground openings and with but a small amount of ore in sight. In this discussion, however, both classes of property are included in the word "mine."

Going back to the Colorado legal definition, that a mine's value depends upon the value of the ore both developed and undeveloped, it is easy to see that in vein mining the value of a property can never really be known until its complete exhaustion; not until the very last ton of ore has been taken out
and treated is the data available for the purpose of calculating what the mine was worth before any of the ore was removed. In our own state, Arizona, there are no doubt hundreds and perhaps thousands of ore deposits in which not a single pick has been struck, nor a shaft sunk. These ore deposits are of value, but how is it possible to know of their ore and to value them until they have been discovered and opened up?

In the early day of mining in the United States, and in Arizona, the policy of putting large amounts of ore in reserve was not followed. If a rich vein outcropped, a shaft was sunk upon it, and after it had gone down 100 feet one began to take out the ore and either ship it, or treat it locally in a mill or a smelter. The shaft might be kept perhaps 100 feet ahead of the extraction level, or the levels from which the ore was being taken, and if perhaps the shaft suddenly went into valueless material after sinking 100 or 200 feet, the property was in all likelihood abandoned. Later on, in many of the copper mines of Arizona, large amounts of water were encountered in going down, and in many cases the rock was soft and treacherous and after being opened up would crush the timbers supporting the galleries. For this reason development was not pushed and many a mine had not more than one year's ore in sight, or developed ahead of its actual yearly requirements. Most of these mines were in the nature of fissures which stood either vertical or nearly so, so that the expense of development to the very bottom of the mine was prohibitive.

Within the last few years, however, there have been opened up in the State of Arizona several copper mines of what is known as the "porphyry" type. In these cases the ore occurs in large masses, which roughly are flat, that is, they might extend thousands of feet north and south, east and west, and yet be only from 50 to 400 feet thick. They are covered with a layer of rock or soil from 50 to even as high as 400 feet, which was entirely barren, and notwithstanding this barren zone covered what is locally called a zone of secondary enrichment. These ores were, relatively speaking, of low grade, running between 1½ to 2½% in copper, and therefore, in order to make them commercially available, they had to be
treated in large quantities. The old mines of Arizona often ran as high as 25% copper and many of them to-day yield from 5 to 8% copper, not including the gold and silver also in the ore.

Now before capital could be induced to equip these porphyry mines with the huge plants necessary to treat from 3,000 to 7,000 tons a day, it was necessary to develop and prove a sufficient tonnage of ore to warrant these enormous expenditures. The day has gone by when a mine could be started on a shoestring and pay for itself almost from grass roots. The configuration of the porphyry mines with the ore proving could be readily done by churn drill holes, and so the ground was laid out in checker-board fashion, and at the corner of each 200 feet square a drill hole was put down. The result is to-day in Arizona we have at least four properties of this class, showing respectively, 75,000,000, 45,000,000, 26,000,000 and 20,000,000 tons, together with two others of a similar nature with not as great tonnages blocked out, though their possibilities are by no means exhausted.

We also have in the state, four large mines of the older type in which the deposit is more or less nearly vertical and in which the future is more or less of a gamble. Some of these mines have been wrought for twenty years and are now being explored at a depth of from 1,000 to 1,500 feet. Whether they will go 200 or 2,000 feet deeper no living man can tell, and the opinion of the best mining engineers in America would be nothing more or less than a guess. The chances, however, are that these mines will last for a good many years more to come, but their lives cannot be predicted with the same certainty as those of the porphyry deposits whose ore is blocked out and whose ultimate life in most cases is known.

The question therefore arises, how shall we determine the true cash value of these various mines so that the values arrived at will be equitable themselves, as we may without doubt dismiss from our minds the solution of the problem that the true cash value can be determined by oracularly standing at the mouth of the shaft and looking down it, as one can stand in the center of a farm and look around its fields, or
can stand at the intersection of two streets and see the building on the corner lot.

The result in Arizona is that there are two schools; one demanding the physical valuation of mines by a careful study of them by a competent engineer or board of engineers. In the case of the porphyry mines this would be relatively simple. One would know the life of the mine to be 1, 20, or 25 years, one could assume an average selling price for copper, the costs are well known, and it could be easily calculated that the mine could produce so much net profit for, say, 20 years. Then by the use of actuary tables the present values of all of the annual dividends could be calculated and the sum of them would be the present value of the mine. This has been worked out quite carefully by Mr. H. C. Hoover in his classical work on The Principles of Mining. If the same engineer should examine one of the vertical mines which was yielding the same annual profit and could find but two or three years of ore in sight, he would be forced to one of two conclusions; either to fix the present value of this mine, based upon the two or three years ore in sight, or else to make a guess far into the future, and say that this or that mine in his estimation would last 5, 10, 15 or 20 years. This it is impossible to do, and the owner of a mine, if he chose to be technical, could without doubt upset such an assumption as being arbitrary in the extreme.

The other school claims that the value of a mine should be based by taking as the primary facts its annual production and the profits arising from that production, and that value of any property in its ultimate analysis really is based upon the profit that it can make. It therefore demands that the mines shall be assessed using these figures as a basis. If a mine lasts for five years, then it pays taxes for five years, if it lasts twenty years, then it pays taxes for twenty years, and the state loses nothing by the transaction.

The claim is made that inasmuch as taxes are paid annually the question of valuing a mine for the purpose of taxation is radically different from that of valuing it for the purpose of sale or purchase, or consolidation with other mining properties. It is of course, assumed that if two mines are to be
consolidated each making the same annual net profit, one of which it is fair to assume has a five year life, and the other a ten year life, that the second mine should be given greater value in the consolidation, but for the purpose of taxation the factor of probable life may be omitted because the taxes are not paid in a lump sum in the beginning as would be the purchase price, but are paid year after year. If the value of the mine was to be based upon the tonnage of ore in sight it would be an incentive to the mine owner to retard his development, which eventually would be a detriment to the state, as unquestionably development ahead in a mine tends to prolong its life, as it carries a man over those periods of poor showings in a mine when he might be tempted to abandon it.

The present mine valuation law in Arizona, which was passed in the early part of this year provides that mines shall be assessed by adding together one-eighth of the gross production for the previous year, four times the net profit for the previous year, and the value of the improvements. This then represents "The Full Cash Value of the Mine," and in most cases amounts to about five times the net annual profit. In other words the mines are put on approximately a 20% basis, of which it may be considered that 10% is income (which is not considered high in Arizona considering interest rates and the risks in mining), and the other 10% is to return the capital invested, because it must be borne in mind that a mine is in a constant state of liquidation from the day that it starts and that when the ore is exhausted the surface plant and reduction works, no matter how much they may have cost, are of no value. Hoover in his Principles of Mining in determining the present value of a mine does not consider the plant or reduction works as one of the facts to be added in. In Arizona this point was seriously discussed, and while a number of the advocates of the second school strenuously held out for a non-assessment of plant, the Legislature considered this too radical a change and therefore declined to omit it. Many of the advocates of the latter system would have preferred to have used a greater factor in multiplying the net profit and not have had the plant considered in the assessment. This is a point which should be given
careful attention as it seems unfortunate to penalize the low-grade mine, which of necessity must have a more expensive plant per pound of annual production. Under the present law, the porphyry mines with all of their ore developed are put on practically the same basis as the vertical vein mines, in which the life is unknown but is surmised to be in many cases as great as that of the porphyry mines. This therefore, results in the state very likely getting more revenue than it would had the physical method of valuation been decided upon.

The advocates of the physical method of valuation lay great stress upon the method developed in Michigan, upon what is known as the "Finlay System." In this case the state tax commission employed Mr. J. R. Finlay of New York, one of the most distinguished mining engineers in America, if not in the English speaking world, to examine all of the copper and iron mines in Michigan and report to the commission his opinion as to their value. The time given Mr. Finlay to make this examination and report was very short but he quickly organized a staff of assistants and the results, as a whole, were quite satisfactory to the commission, though later on cases of inequality developed which the tax commission and the local assessors have been attempting to straighten out.

It should here be borne in mind that the valuations of the mines as determined by Mr. Finlay were by no means the valuations which were placed upon the assessment books of the various counties. The tax commission, for example, might from its study of assessments conclude that one of the counties in the Upper Peninsula should be assessed at $50,000,000. From the information which it had it might have assumed that the mines were worth $40,000,000 and the other property in the county $10,000,000. It thereupon certified to the county board of supervisors that the county assessment must total $50,000,000. It was then left entirely to the board of supervisors as to how that money should be divided, and if they in their judgment thought that $25,000,000 was enough for the mines, then the balance of the property in the county had to come in for the other $25,000,000. I am informed and believe that practically this state of affairs exists in Houghton
county to-day, this being the county in which the famous Calumet and Hecla Mines lie.

In determining the value of the copper mines in Michigan, Mr. Finlay had a comparatively simple problem as all of these mines are comparatively narrow beds, averaging say, 14 feet wide, and dipping at a very regular angle to the northwest. Some of these mines were only 1,000 feet deep, but one of them was at least 8,000 feet measured on the slope, another one was 5,000 feet, and several were 3,000 feet. The lodes as a whole are pretty uniform, so that after a mine had been worked down 1,000 feet, and the relative proportion of pay ground and poor ground determined, it was easy to assume a life of the mine, estimating that the ultimate depth of the mine would be in the neighborhood of 7,000 feet. Taking then an average price of copper, and taking the costs of producing this copper, and figuring in the life of the mine, Mr. Finlay arrived at a certain valuation for the various copper mines of the Upper Peninsula. He did not have the problem, as in Arizona, of two radically different types of mines, but had a problem which might be considered a compromise between the two, that is, the steeply dipping vein whose future life could be fairly well predicted.

When, however, Mr. Finlay took up iron mines of the state, he was up against an entirely different problem, for here the ore occurs in most irregularly shaped masses, development in many cases was not carried far ahead, and in my opinion the valuation put by him on the iron mines was too low and against the interests of the state simply for the reason that Mr. Finlay was unable to, and from the nature of things could not, determine the ultimate life of the iron mines, assuming that he was fairly correct in determining the value of the copper mines. Had the value of both the iron and the copper mines in Michigan been based upon the annual profit, I believe that the revenue of the state would have been greater and that a large amount of dissatisfaction would have been avoided.

The present arrangement in Michigan is almost ludicrous in its results. A ledger is to be kept and an account is to be opened with each mine. It is to be charged up with the
new ore developed during the year, and it is to be credited with the ore shipped. An immense amount of office work is to be carried on, a corps of mining engineers is to be employed, and when they get all through they are no better off than if they assessed the mine each year on the basis of what it had produced for the year before.

This is supposed to be an era of conservation, and yet if you will proceed to assess and to tax mineral resources, which in the ordinary demand of the country should not be taken out for twenty years to come, are you not putting a premium on the early exploitation of its natural resources, and are you not inducing the owner to get it out and sacrifice it, rather than to hold it in reserve for a later generation? It is of course, admitted, that we must not deprive ourselves of necessities, or even a moderate amount of luxuries, for the unborn generation, but certainly we do not wish to repeat in our mineral industry what we have done in the past in our timber industry. Along this line of argument it is to be noted that Pennsylvania has made an arrangement by which cut-over lands which are reforested are taxed but a nominal amount until such time as the timber is developed and is ready to be cut and sold.

Whether the percentages adopted in Arizona are sufficiently high, it is not for me to say, in fact the legislature has made the present law only operative for two years so that we may have an opportunity of seeing how it works out, and what relation the total assessed value of the mineral industry of the state bears to the agricultural, cattle, and other industries.

There is another school which thinks that the value of the various mining stocks, as quoted on the various exchanges of the country, should be the measure of the value of the mine for the purpose of assessment, but it appears evident that these daily quotations of a few hundred or a few thousand shares can be either unduly advanced or depressed by purely local circumstances and by conditions of ownership, and do not reflect the real value of the property. In several cases the names backing a mining company have such a good reputation that stocks which they control are quoted higher, or in other words, pay lower rates of interest than those of other
people. This simply indicates that the investor banks upon their honesty. Therefore, the quotation of a stock covers two things—the value of the mine, and the good name or will of the management.

It is interesting to note that within a very few years the question of the valuation of the Franklin Furnace Mine in New Jersey was up before the courts. This mine is peculiar, the ore being a complex mixture of iron, manganese and zinc. It was examined by quite a number of prominent engineers, and if my memory serves me correctly, the value placed upon the property varied all the way from $4,000,000 to $20,000,000. In this case the value of the mine was complicated by the question of the Wetherill Magnetic Separation Process. Without this process it was claimed that the ore could not be wrought, and therefore, part of the value of the property, together with its magnetic mill was eventually given to the Wetherill patents.

In the case of the sulphur mines of the Union Sulphur Company, of Louisiana, in which the ore is mined by blowing down superheated water and compressed air through pipes, it was eventually decided by the court that one-half of the value of the property was in the deposit of sulphur and the other half in the Frasch patent covering this method of extracting it.

These two cases are quoted to show that the stock value of a mining property by no means covers only physical value of the property and its improvements.

For my own part, as a member of the tax commission, I must say that I prefer the method adopted by Arizona. Whether the net profits should be multiplied by four, or five, or even ten, I am not yet prepared to say, but I firmly believe that the method which we have tentatively adopted is the one which in the long run will redound to the best interest of the state.

Mr. Allan C. Girdwood, of Maryland: Mr. Chairman and Gentlemen, I would like to refer the committee on mines to a recent decision in 225 Pennsylvania State relating to methods of assessing mines. It would appear as though there is
marked conflict in the opinions of the courts of the east and the west. There is an old case in 15 Wall. United States Reports. We have an opinion in 30th Maryland that I would refer the committee on mines and mineral lands; and if the committee is to be continued, I would refer it also to the report of the Pennsylvania Legislative Commission of 1911, continued in 1913. Their recommendation is the logical one—it is that there should be a conference of officials in those states having mines, in order that there should be a uniform method of taxing.

Mr. C. P. Link, of Colorado: Gentlemen, I wish to be permitted a few minutes to discuss this matter. With us in the western states—at least several of the western states—it is our most complicated, our most unsolved and our most unsatisfactory matter; and I want to say in the start that my interest in this matter is purely for fair assessment of the mining industry. My father was one of the gold-miners of California in 1850. He went to Colorado in the Pike's Peak excitement, before I was born, and I was raised in one of the mountain mining counties of Colorado and I have been through this mill for many years including the year I have been thrown in taxation. And I might say from a selfish standpoint that about half of the little savings I have is invested in Colorado gold prospects. I have not been one of the lucky ones—mine are prospects.

Mining in Colorado is one of our very largest industries. The mining men of Colorado, the mining association, the chamber of commerce tell you there always that it is the greatest industry. In fact it is one of the most important industries. But strange to say that entire industry was entirely exempted from taxation for ten years, and last year, under what the mining men claimed is an over-fair assessment, that great industry paid only four per cent of the taxes of the state, which I submit is an outrage. This year, after one of the hardest and bitterest fights we had in our state legislature, we increased the taxation of the mining industry. Formerly it was twenty-five per cent of the gross output unless the net exceeded twenty-five per cent of the gross, in
which event the net was used as an assessable value to apply the levy to. This year after a very hard and bitter fight, opposed by the heaviest lobby, I think, ever organized in Colorado to defeat one bill, we increased the annual taxation to fifty per cent of the gross output in all cases plus the net where there is a net. That looks like a big step forward—as a matter of fact it is almost two hundred per cent better than it was last year—and I want to say right here the Colorado tax commission is a unit on this proposition. We are sorry our Arizona neighbors have disagreed but the Colorado commission are a unit for the minority on that commission. But we contend that this bill is even still an outrage and doesn’t even give an approximation of the assessment of values in the mining industry. Replying for a moment to Brother Miller of the Arizona commission—I have already said that the Colorado commission is a unit and we are strongly opposed to and always apologize for an output assessment on mines—but speaking of the decision, Mr. Miller quoted from our courts. I want to say to you gentlemen here that recently, I think three weeks ago, our state supreme court by unanimous vote, handed down a decision—reversing the lower court and sustaining the construction placed upon the law by our county assessors.

Mr. Miller mentioned the difficult problems in Arizona. We have those same problems. We admit it is hardest of all to decide the value of some mining property. I want to say to you that Mr. Zander has written the report of your mine committee—and the committee feels that it is a good report and that Mr. Zander deserves the credit. The committee have provided for this emergency: where property is of unknown real value we provide expressly that the assessing officers shall start in with a nominal value, but where there are real values they should be assessed the same as other property is assessed. I am not a single taxer. I have gone a long way with many of my progressive friends in many reforms but I have always stopped and have not yet gone over the line on the single tax. I don’t believe in it. But I am opposed to holding wealth in land and mineral properties for purely speculation, and that is what the net
assessment does. It penalizes the producer; and I want to say to you that the rule—not the exception—in Colorado is that the heavy mine owners don't produce the ore. They hold the property for speculation. It is the poor lessees, the hard muscled miner, the common three dollars a day man that takes the least, and the owners bind him up to pay a royalty not running less than ten per cent and frequently seventy-five per cent of the ore. He has to pay those outrageously heavy royalties, and very frequently they bind the lessee to also pay a part and sometimes all of the tax, which is something that ought not to be permitted. I want to quote to you an actual fact, in rough words, that has been published in western periodicals. That was this: our mountains are full of prospectors—and we are very proud of them—but unfortunately some of those prospectors do not work—they do not produce ore—but they hold off to catch some eastern "sucker," if you please, and sell to him at a fabulous price. In this case there was a prospect that showed up pretty well in a district and there had been several prospectors in that district several years. One of those eastern men had looked at quite an area that showed up some gold and he was about to make a deal when he said, "How much of this surrounding territory can we get?" The reply was, "I own one side of this mountain and whiskey Bill owns all the other side." That is the principle that works outrages and does not encourage the great mining industry.

Mr. J. Parke Channing, of New York: Being a mining engineer interested in mines in Colorado, the state from which Mr. Link comes, and Arizona, the state from which Mr. Zander and Mr. Miller come, and having been the former manager of the Calumet & Hecla Mine in Michigan, I have given special attention to the subject of the valuation of mines.

As far as mining in Colorado is concerned, this is undoubtedly on the wane and the state a "dead one." Twenty years ago Colorado was a great producer. In the meantime she has largely exhausted her ore deposits, and most of the old prospectors who are holding ground in Colorado have claims that are probably valueless, and as the gentleman says, they
are probably waiting for some one unversed in mining to come along and buy them out. Personally I think that very few properties of real merit in Colorado are being held back for want of capital to develop them.

In Arizona we have a state that is the biggest producer of copper in the United States. There is not a single property in Arizona that has copper in it that can be worked which is not worked.

As the vice-president of a large company in that state, I want to say we are not trying to dodge our taxes. We believe that the mining industry in any state should pay a fair and just proportion of the states expenses. I am perfectly willing to admit that Colorado has been very negligent in the last twenty years in taxing her mining property. She has permitted during her boom large amounts of ore to be taken out without the proper amount of taxation, and I am prepared to say that even the tax which Colorado to-day puts on is not enough. Compare for example two properties one in Arizona and one in Colorado that produce, say, five millions gross a year and two millions net. In Colorado it would only be assessed for four and one-half millions; in Arizona it would be assessed for eleven millions of dollars. I am strongly in favor of the scheme that Mr. Miller put forth, in fact I strongly advocated it in Arizona when the present law was passed, and the point I want to emphasize is the point that Mr. Miller has brought out—that there are radically different classes of mines; those in which you can see all the ore and those in which you cannot see any. I happen to be the unfortunate man who is interested in a mine where you can see most of the ore, and therefore they can always get me. But the other man, who is not developing ahead is the man who should pay his proportion of the taxes. And if you go on the method that has been advocated by the committee, every time that you come to the man who has not given his mine development—and you feel sure it is going to be a big mine—he is going to get off year after year. I will admit the statement made by the chairman of the committee that if you have two mines which produce one million dollars a year net, one of which has one year life and the other twenty years
DISCUSSION ON TAXATION OF MINES

life, it would be inequitable to assess them both for the same amount of money. But we must know it is impossible to get any method of taxation that is absolutely equitable; and whether you take Mr. Zander's method or Mr. Miller's method, you are going to get inequalities; but you have to get something that is a compromise and get as nearly as possible to the truth. And therefore I am strongly of the opinion that a tax or valuation based upon the net or gross product or both is the most equitable. As Mr. Miller has very properly said, he is not prepared to say in Arizona whether five times the net is correct, or whether ten times is correct. I am not prepared to say so either. In South Africa the valuation is based entirely upon the gross production. In Arizona we thought this was manifestly unfair because there are certain mines there which have a large gross, whose costs are high, and their net low. We should not penalize those mines, yet they should contribute something to the state, and therefore we assessed them on part of their gross. President Charles R. Van Hise of the University of Wisconsin at the recent American Mining Congress convention in Philadelphia called particular attention to our gross neglect of conservation of the mineral resources in this country. He called attention to the fact that coal was being wasted by not promoting understandings between the producers—people going in and mining half the seam cheaply and waiting the rest. He referred to the fact that in Michigan, Wisconsin and in Minnesota particularly a premium was being put on exploitation by taking out ore before it was really needed. Now if you are going ahead on the Minnesota method and you assess ore that should not be taken out for twenty or thirty years—and it is estimated that some will not be taken out for fifty years—you are simply putting a premium on waste. I think the method in Arizona is right, because as Mr. Miller brought out, we have two types of mines. The committee shows its own weakness in its conclusions as if you use your judgment you are going to get into trouble—you are going to make inaccurate deductions.

Mr. C. P. Link: I wish to reply very briefly to the state-
ment that Colorado is a dead one in mining. You know what the Englishman said when he was challenged. He said he denied the allegation and despised the "'allegator.'" But I want to say to the gentleman that the facts deny his statement. I want to ask if he knows that last year Teller County and Lake County—and according to the average so far this year 1913 is going to be better than last year—that these two counties produced in good, hard, clean gold over twenty millions of dollars.

Mr. C. M. Zander, of Arizona: In the paper presented by Mr. Miller you have a very complete and comprehensive statement of the position of his side of the question. It not only represents his views and those who believe with him in Arizona outside of the mining industry; but it also expresses the views of all the mining men in Arizona themselves, as indicated to you by Mr. Channing, who has just occupied the floor, and as further indicated by Mr. Channing during the sessions of the legislature, where in a large respect he represented the mining industry in Arizona. With respect to the contention that the committee's report is weak because it admits that there may be doubt in some cases about the principal method of finding the true value, I want to say that the people advocating this idea never state that they can find the complete and absolute value of all mines. We admit that from the very start, except in some of the mines—as the mine owned by the people Mr. Channing is associated with, and those similar to it—and perhaps even in those cases more ore might be found, as happened in Mr. Channing's mine, where they subsequently did find an additional body of ore after they had finished the first exploration of the property. But this condition exists: firstly, the method used in Arizona finds only about half the value of the porphyry mines, in which Mr. Channing and his associates are interested. Therefore, manifestly, there is a class of property that is not paying its just tax, evidently admitted by those who are interested in the properties; and because of the difficulty in finding the value of the other classes of mines that are vertical, the situation arises, and is clothed with righteousness, that
these mines have the right to escape their proper taxes. With respect to these vertical properties, the contention has been made for the last twenty years, ever since mining legislation has been proposed in Arizona, that you cannot find any value, and you do not know anything about the value of these properties; that they do not have more than one or two years ore blocked out; that they may exhaust themselves in two years, and that if you levy a tax that calculates a greater amount of ore than a two years supply, it is an injustice—an unjust tax; yet all the large producing copper mines in Arizona, with one exception, have continued to produce, and each succeeding year shows to the people who own them and to the investing public that there are greater ore supplies in reserve than there were the year before. And yet they claim that they have only still one or two years’ ore supply in sight.

This fact is also to be noted: there is no one, neither Mr. Channing, nor any other mining engineer, nor any man who has invested legitimately and honestly and conservatively in mining property, who has not based his investment upon an investigation made by Mr. Channing or some other high grade engineer. And I assume it is only proper for any assessing body or any commonwealth to find a valuation on any class of property, in the absence of any better method, in the same way that the people who are involved in that industry and who are handling that class of property use to find the value themselves.

Mr. T. S. Adams, of Wisconsin: There is one fundamental principle that men of the technical type particularly forget, and that is that taxes on mines must in some way be equated with the burden of taxation resting upon other property. The general system of taxation under which we exist is a property tax, not an income tax, and the burden of property taxes, if translated into terms of income taxation requires rates so excessive that the ordinary legislature will not impose them. If the burden of property taxation is to be translated into product or income taxes, then the average mine owner must be educated up to endorse and accept a rate of income taxation far beyond anything which he has heretofore considered.
Another point I may make by illustration. There went through Northern Wisconsin many years ago an ordinary timber speculator. He wanted some land. He wrote down to some of his friends: "May I enter this land in your name?" They said, "You may." He stripped the timber, went away and probably died. A number of years later a mining engineer came along and discovered valuable mineral in these properties. After investigating the ownership of these lands he wrote to the people in whose names they had been originally entered and asked what they would take for these properties. They replied, "We haven't any such property." Their interest being aroused by the inquiries, however, they investigated the subject and found that the lands entered in their name had been sold for taxes a number of years back, whereupon they proved up, got title, leased their rights to the mining man in question and now have been drawing handsome royalties for a number of years from the properties so acquired.

We are dealing now with the taxation of natural wealth. Is it not true, gentlemen, that property so frequently acquired as pointed out in my illustration, is less entitled than anything else of which we know, to ask for particular consideration or leniency. The state is morally justified, in my opinion compelled, by the essential ethical elements of the situation to get from this class of property every dollar of revenue that can equitably be taken; and no proposition to ask for less ought to be endorsed.

With reference to the "conservation" argument made by President Van Hise and Mr. Miller, I suggest that you have got to prove in some utterly convincing way that a reduction of taxation will result in conservation. Taxation is only one of the many factors entering into this problem, and so small a factor that tax reduction will probably not reduce by ten tons a year the ordinary production and consumption of minerals. Prove to us that when taxes are reduced you will conserve your property; and, secondly, if you are going to have a yield or income tax, let the fine minds of the engineers develop a plan whereby the value of these mines can be equated with the rest of the property of the state, because
mines compose one class of property which has no right to ask for particularly lenient treatment. It is wealth given by God, acquired frequently by chance or good luck, and it ought to pay just as much as any other class of property. [Applause.]

Mr. J. Parke Channing: As to the statement I made that Colorado is a "dead one" as concerns its mining industry, I think I should perhaps have said that Colorado is declining in vitality! I am president of a gold-dredging company in Colorado that is paying about $100,000 a year. I don't know if we pay enough taxes, and I don't think we contend that we are paying too much. I wish to compliment the gentleman who just spoke in regard to his statement that no matter what method you use on a mine its real ultimate valuation must be equated with that of the rest of the state as long as we use a property tax. The point I make is that by using the net and gross you can get at it. As Mr. Miller said, he is not prepared to say that five times the net is enough. Perhaps it is five, six, seven or eight. It must be high enough to put all other classes of property on the same level.

Mr. Zander said the present assessment of mines is nowhere equal their value. How does he arrive at that question of value? That must only be his opinion. My own mine has about 750,000 shares selling at $20. That is $15,000,000. It is to-day paying 10-percent dividends on its selling value. It is assessed this year for over $11,000,000, and I tell you that when that mine is assessed for $11,000,000, and selling on the New York stock exchange for $15,000,000, the assessment is getting up dangerously close to the actual cash value. Now, why are the stockholders of this mine willing to take ten per cent on it? If you take into consideration the exhaustion of that mine, they are not getting ten per cent. They are getting six and one-half. The other three and one-half is return of capital. They are hoping that in the future the price of copper will advance and that we may find some undiscovered ore body and be able to increase our production and our dividends.

Now again as to the point made by the gentleman from
Wisconsin. In the early days we admit the mines in Arizona were ridiculously undertaxed, and those who come in now with new mines—the pendulum swinging the other way—are getting punished for the sins of the older mines. In Arizona we are paying a very large proportion of taxes and we are glad to do it because we know that the money is properly expended. It is expended for roads and schools and the administration is good, and there isn’t a single mining company that objects in the slightest to the taxes it pays. This year our taxes will be pretty close to ten per cent of our net profit. The mines of Arizona this year are valued at thirty-seven and two-tenths per cent of the total valuation of the state.

Mr. A. C. Pleydell, of New Jersey: When you say the mines are assessed at thirty-seven per cent, you mean thirty-seven per cent of the total valuation of the state?

Mr. J. Parke Channing: The mines this year are in at thirty-seven per cent of the total value of the state, and without the mines the other property of the state would be nearly valueless because there would be no market for its product.
REPORT OF COMMITTEE ON FOREST TAXATION

CHAIRMAN FRED R. FAIRCHILD
Yale University, New Haven, Conn.

I. INTRODUCTORY

In this report your committee makes no attempt to present a discussion of the defects of the general property tax as applied to forests or a general analysis of the principles of correct forest taxation. These matters have been quite fully discussed at previous conferences of this association. (See Proceedings, Vol. I, pp. 256-258, 467, 470; Vol. II, pp. 69-110; Vol. III, pp. 335-336, 359-363; Vol. VI, pp. 371-401.) We assume that it is admitted that the general property tax is not a satisfactory method of taxing forests. Our task is to outline a practical plan of reform.

II. OBJECTS TO BE OBTAINED

The objects which we have sought to obtain by a reformed method of taxing forests may be stated as follows:

(1) It is proposed to place upon forest owners their fair burden of taxation as compared with other taxpayers. No subsidy or special favor to forest owners is contemplated. The legitimate objects of correct forest taxation may be obtained by a change in the method of taxation without generally involving any reduction in the taxes paid at present.

(2) The forest owner should be guaranteed that his burden of taxation will be reasonable and that its amount will bear a fairly definite ratio to the income from his forest and be fairly predictable in advance.

(3) The various political bodies involved (States, counties, towns, etc.) should be guaranteed against any serious irregularity of income resulting from the changed method of taxing forests.
The method of taxing forests should be such as will impose no obstacle in the way of the best use of existing forests and the investment of capital in new forests. So far as consistent with the other objects stated, the tax plan should be a direct inducement to these ends.

III. Statement of Principles

The theoretical principles at the basis of scientific forest taxation may be stated as follows:

In general taxation may be imposed upon either (1) the capital value of the wealth subject to taxation, or (2) the income produced thereby, or (3) upon both capital value and income. In the taxation of forests, this means that we may follow one of three possible methods:

(1) An annual tax may be imposed upon the value of the land alone, at the rate of taxation borne by other kinds of wealth, continuing so long as the forest is maintained, without any additional tax upon the trees either standing or when cut. This method is adequate, however, only when the tax is paid from the beginning; i.e. from the date of planting or otherwise establishing the forest.

(2) A yield tax may be imposed upon the value of all forest products taken. The rate of the yield tax should be the quotient of the prevailing rate of taxation borne by other kinds of wealth divided by the prevailing rate of interest. In this case there should be no additional tax upon the land or upon the standing timber, except that provision would have to be made for taxation of mature forests which were being held indefinitely without cutting.

(3) It is possible to produce correct results by a combination of the two methods just described; i.e., the annual land tax and the yield tax. An indefinite number of combinations is possible according as preponderance is given to one or the other method in the combined scheme.

The simple yield tax has many advantages. It has, however, the disadvantage of making it difficult to maintain regularity of local income. The fact that it is a radical departure from tax methods prevailing in the United States is a further drawback. On the other hand, the tax on the land alone has
many of the disadvantages of the present general property tax and might be burdensome and occasionally unjust to the owner. A combination of land tax and yield tax, each at such moderate rates that the combined burden will be just, appears to be the most practicable plan for advocacy in most parts of the United States. Special consideration in the taxation of mature timber may have to be given to those sections of the country which contain large tracts of mature virgin timber, much of which cannot profitably be marketed for many years to come.

In presenting the following outline of a plan of forest taxation for the states of the United States, your committee has purposely avoided going into minute details as to the tax system or its administration. Such details must always be made to conform to local conditions and must, therefore, vary from state to state. Our purpose has been to present, in somewhat general terms, the outline of a sound plan of forest taxation which we believe can be adapted to meet the local conditions of all or nearly all parts of the United States.

Where exact figures are used in the following plan, to specify tax rates, age of timber, intervals of assessment, etc., the figures selected are those which appear to be adapted to conditions generally prevailing in the United States. Your committee does not intend, however, to insist upon the exact figures in any case. They are presented largely for illustration, and the principle of the proposed plan may be carried out while substituting other figures as conditions require.

IV. Outline of a Plan of Forest Taxation for the States of the United States

1. Lands subject to special taxation. The special forest tax should apply to all lands on which forests are growing and which meet certain conditions to be specified in the law. These conditions should specify the proper species of trees, the minimum number of trees to the acre, and so forth.

Lands subject to the special tax shall be valued at not over —— dollars per acre. (This value should be fixed so low as to exclude lands better suited for other uses than forestry.) Lands shall be separately classified and brought under the
system at the owner's option. Owners desiring special classification may make application to the state forester, accompanied by a certificate of the local assessor stating the value of the land, valuing separately the different parcels if directed by the state forester. The state forester shall examine the forest and if he finds it meets the legal requirements shall certify the forest for separate classification and taxation.

Lands thus separately classified shall remain so as long as the forest is properly maintained. The forester shall make occasional examinations to make sure that the forest is being properly maintained and the conditions of the law lived up to. Lands may be withdrawn from each classification at the option of the owner on paying the tax provided below.

2. The tax. Forest lands when separately classified for taxation shall be subject to a special method of taxation.

Two methods are proposed, depending on whether the forest is a "new forest" or an "established forest."

(1) By a "new forest" is meant lands stocked with forest trees the majority of which are not over 10 years old, provided that the older trees do not add to the assessed value of the property and that the forest meets with the other requirements of the law. This may include land fully stocked with trees under 10 years of age but containing also scattered older trees, or lands partially stocked with trees under 10 years of age when planted with a sufficient number of additional trees to bring the forest to the standard set by the law, or open land planted with trees to meet the standard of the law. Such forests, when accepted and classified, shall be taxed by the following method:

The land shall be assessed by the local assessors at its value as bare land, no account being taken of the value of the trees. This assessment shall be repeated at intervals of 20 years until the prevailing age of the trees reaches 70 years. Upon the value thus determined the land shall be taxed annually at a rate equal to one-half of the rate of the general property tax of the locality, but in no case to exceed 5 mills. This limit of 5 mills is chosen on the assumption that 10 mills is probably slightly in excess of the average rate of the general property tax upon true value throughout the United States.
In any state where it appeared that the prevailing rate of the general property tax was appreciably higher or lower than 10 mills, this rate might be correspondingly changed. This explanation applies equally to the limit of 10 mills proposed below for the tax upon forests over 70 years of age and upon "established forests."

Whenever any timber is cut or other forest product taken from the land a yield tax of 10 per cent of the stumpage value of the timber cut or the actual value of other forest products shall be paid to the state. Forest products cut for domestic use, which shall be limited to fuel and the construction of fences, buildings, and other improvements upon the property of the owner or of a tenant with the permission of the owner upon property subject to taxation in the same town as the timberland, shall be exempt from taxation.

Whenever trees are cut before reaching the age of 70 years and provision is made for planting new trees or otherwise maintaining the forest according to the standard fixed by law and to the satisfaction of the state forester, the land may continue separately classified and subject to the special tax indefinitely until the timber reaches the age of 70 years.

When the timber reaches the age of 70 years there shall be an assessment of the value of both land and trees, which assessment shall be repeated every 10 years (or oftener), and upon this assessment an annual tax shall be imposed at the rate of the general property tax in the locality, but not to exceed 10 mills, which tax shall continue until the trees are cut. When the trees are cut the yield tax of 10 per cent shall be assessed. From the amount of the yield tax shall be deducted the amount of the previous payments of the annual tax upon land and trees since the trees reached the age of 70 years. If the amount of such previous payments equals or exceeds the yield tax upon the timber cut, no such yield tax shall be due. If after cutting provision is then made for planting or otherwise satisfactorily reproducing the forest, the lands may remain under special classification and taxation, as previously provided for "new forests."

If the owner desires to give up the forest or to clear off the timber before it has reached a profitable age for cutting, he
shall be at liberty to do so upon paying a tax determined as follows: The value of the timber shall be assessed and a tax computed amounting to 1 per cent of said value multiplied by the number of years since the forest was classified and made subject to the special tax. To this shall be added an amount equal to the total taxes paid upon the land alone during the period since the land was separately classified, and this sum shall be the amount due from the owner. The property shall then become subject to the ordinary property tax. The same procedure shall be followed in any case where the owner fails to maintain the forest according to the standard set by the law as determined by the state forester.

(2) By an "established forest" is meant lands stocked with forest trees according to the standard set by the law, but which contain trees the majority of which are over 10 years of age, or which contain trees over 10 years of age which add to the assessed value of the property. Such forests, when accepted and classified, shall be taxed by the following method:

The value of the land and trees shall be assessed by the local assessor, and this assessment shall be repeated at intervals of 20 years until the trees are cut in such manner as to bring the forest within the definition of a "new forest" as provided in the law, or until the forest ceases to be maintained according to the standard set by the law. Upon the value thus determined the forest shall be taxed annually at the rate of the general property tax of the locality but not to exceed 10 mills.

Whenever any timber is cut or other forest product taken from the land a yield tax shall be paid to the state. This tax shall be a percentage of the stumpage value of the timber cut or of the actual value of other forest products, which percentage shall be as follows: if cut not more than 5 years after classification, 1 per cent; if cut more than 5 years and not more than 10 years after classification, 2 per cent; if cut more than 10 years and not more than 15 years after classification, 3 per cent; if cut more than 15 years and not more than 20 years after classification, 4 per cent; if cut more than 20 years after classification, 5 per cent.

Whenever the trees are cut so as to bring the forest within the definition of a "new forest" as provided in the law, and
the forest is then planted or otherwise reproduced so as to meet the standard of the law, the forest shall be classified as a "new forest" and be taxed thereafter by the method provided for "new forests."

Whenever the forest is given up or is not maintained according to the standard set by the law as determined by the state forester, the property shall then become subject to the ordinary property tax, after all payments of yield taxes due have been made to the state.

It is admitted that the method here proposed for the taxation of "established forests" may not be suited to conditions in those parts of the country where mature virgin timber is the prevailing forest type and where much of such timber would not normally be cut or should not properly be cut for many years to come. This condition is represented by the states of the Pacific coast and perhaps by certain parts of the south and the extreme northeast.

Your committee is not at present able to say what plan of taxation is best adapted to meet such conditions. The opinions of persons interested upon the Pacific coast are at present so divergent, that your committee does not feel itself competent to propose a plan which would have any chance of general acceptance. We therefore beg leave to dismiss this part of the problem without definite recommendation.

3. Administration. Under this system the collection of all taxes on land and trees except the yield tax would naturally be in the hands of local officers and the revenue would go into the local treasury without further concern on the part of the state. The yield tax, on the other hand, and the tax collected as a penalty for removal of the land from classification or abandonment of the forest should be administered so far as possible by state officers, presumably by the state forester and the state tax commissioner in co-operation. The proceeds of the yield tax and the penalty tax should go into the state treasury, either to remain there or if thought best to be distributed back to the towns and counties where the timberlands are located. This distribution might be made according to any one of four or five possible plans. (See Proceedings of the Sixth Conference of this Association, pp.
Your committee recommends, as probably best suited to the conditions of most states, that the distribution be based upon the areas of forest lands separately classified for taxation in the several local jurisdictions respectively.

In all cases the owner should be required to furnish a sworn statement annually of the amount and value of forest products cut during the year. It might also be well to require advance notice of all cuttings. Large owners, lumbermen, loggers, saw-mill owners, and so forth, should be required to keep regular books giving a record of their cutting. Their books and accounts should be open to state officers and more elaborate reports could be required of them. In the case of small farm wood-lots it would not probably be worth while to require special books or elaborate reports. The sworn statement of the owner would ordinarily be sufficient. In all cases there should be some examination of logging operations, either by state or local officers, to check up the accuracy of reports and to prevent fraud. In the case of all large cuttings the owner or operator should be required to furnish a bond sufficient to cover the amount of the tax that will become due. The tax should also be a lien upon the land, but not upon the timber cut.

V. Study in Forest County, Wisconsin

In connection with the investigations of your committee, there has been made a careful detailed study in Forest County, Wisconsin. This study was made by Mr. A. E. James under the direction of Mr. Adams. The result shows (1) the assessed valuation in 1912 of forest lands and other kinds of lands and of personal property and the amount of taxes paid by each class of property; (2) the probable effect upon the taxation of each class of property that would follow exemption of growing timber assuming other property assessed as in 1912; and (3) the probable distribution of taxation among the several classes of property, assuming that growing timber is exempt and other property assessed at its full value.

The results of this investigation are given immediately below.
A Statistical Study of the Exemption of Growing Timber on Forest Lands in Forest County, Wisconsin

It has long been a matter of interest among those who advocate reform in the taxation of forests, to ascertain what changes would be effected by this reform. The present investigation aims to show exactly what would happen in a typical county of northern Wisconsin if all growing timber were exempted from taxation, while the land upon which such timber grows continued to be taxed at $2.50 an acre or $100 a forty.

The results that would follow such a change in the system of taxation in Forest county, Wisconsin, are shown in the following table. In the year 1912 owners of forest land actually paid $52,417.16 in taxes. If growing timber had been exempted and timber land actually taxed at $100 a forty, owners of such forest lands would have paid only $28,824.04. If, in the course of this reform, all other property were actually taxed at full value, instead of the percentage of true value applied in 1912, forest lands would have paid only $18,331.33. Under the present system forest lands actually paid 23.47 per cent of all taxes levied. If forest lands were valued at $100 a forty and all other property remained unchanged, the forest lands would pay only 13.01 per cent of the total. If all other property were assessed at full value, including forest lands on an estimated valuation of $100 a forty, forest lands would pay 8.27 per cent of the aggregate tax bill. Expressed differently the change in taxation would save owners of forest lands if they dedicated such lands to reforestation, approximately 65.04 per cent of their present tax burden. This readjustment would follow naturally in Wisconsin, since the tax commission of that state possesses the machinery whereby a full value assessment can be secured. In states where a full value assessment could not be assured, the saving to owners of forest lands would probably be less because assessors in the forest area would not unlikely lower assessments on other property with the purpose of increasing taxes on forest lands.

It may be stated in conclusion that the figures presented
in the table have been carefully worked out, giving full effect to the great number of readjustments which such a change in taxation would necessitate. It is not thought necessary to present the details of the figures here but they may be secured by any person interested from the Wisconsin Tax Commission. Of the property separately classified in the accompanying table it should be stated that platted lands denote those lands set aside in village plats or within the corporate limits of cities. Settled lands, both forest and agricultural, indicate those upon which actual settlement is found. The valuations cover both land and improvements. It will also be noted from the table that the amount of taxes to be raised in the county differs as between the first and last two tax columns. This is due to the fact that by exempting growing timber state taxes would have to be readjusted, with a corresponding reduction for Forest county and an increase for the agricultural counties of the state.
<table>
<thead>
<tr>
<th></th>
<th>Valuation and Tax Thereon in 1912</th>
<th>Valuation of Forest Land at $100 a forty. All Other Valuations as Assessed</th>
<th>Valuation of Forest Land at $100 a forty. All Other Valuations at Full Value</th>
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<td></td>
<td>Valuation</td>
<td>Tax</td>
<td>Valuation</td>
</tr>
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<td>Total—All Property</td>
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<td>$223,373.08</td>
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<td>28,160.30</td>
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<tr>
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<td>764,785</td>
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<td>Settled</td>
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<td>Unoccupied</td>
<td>1,447,783</td>
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<tr>
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<tr>
<td>Bank Stock</td>
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<td>700.00</td>
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</tr>
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</table>
Mr. Francis N. Whitney, of New York: We have heard reports from the committees on the taxation of mines and mineral lands, forest taxation and the taxation of public service corporations. I move the reports be received, filed and printed.

[Motion voted.]

Mr. Francis N. Whitney: As the committee on mines recommended that the committee be continued, I move that the question of the continuance of this committee be referred back to the executive committee with power.

[Motion voted.]
REPORT OF THE COMMITTEE ON RESOLUTIONS

PROFESSOR CHARLES J. BULLOCK, of Massachusetts: Mr. Chairman and gentlemen, on behalf of the Resolutions Committee I present the following three resolutions:

I. Resolved, That this conference recommend to the National Tax Association the appointment of a committee to investigate the subject of the increase of public expenditures.

II. Whereas, The question has arisen whether section 7 of the proposed act for the establishment of Federal Reserve Banks may not impair the power of state and local governments to tax the capital stock of national banks;

Resolved, That this Conference requests the president of the National Tax Association to confer with the Chairman of the committee having the proposed act under consideration, with the view to securing such an amendment as will make it clear that the act does not impair the power now conferred upon state and local governments to tax national bank stock.

III. Recognizing, with a deep sense of gratitude, its obligations to the many individuals and associations who have combined to bring about the success of this conference, we desire to express our thanks by formal resolution: therefore be it

Resolved, That we extend our sincere thanks to the following organizations and persons, namely:

The Governor of the state of New York for his hearty cooperation in extending invitations to delegates and his interest in the work of the conference;

Mayor Fuhrmann, Mr. Ramsdell, and their associates, on the New York Committee of Arrangements;

The members of the State Board of Tax Commissioners of the State of New York and their assistants, for their valuable aid in facilitating the work of this conference, and especially Chairman Thomas F. Byrnes for his constant and effective services on behalf of this Association;
The Chamber of Commerce of the city of Buffalo and Mr. Henry B. Saunders, its Convention Commissioner;

The Hotel Men's Association of the city of Buffalo for their generous contribution towards the expenses of this conference;

Mr. H. M. Gerrans, Vice-President of the Hotel Iroquois, and his staff, for the exceptionally comfortable and convenient quarters furnished, with their compliments;

The Remington Typewriter Company for valuable assistance rendered in connection with the conference, and also for courtesies extended through Mr. S. H. Farnham in connection with the equipment of the Treasurer's office;

The Associated Press and the Press of Buffalo, for their interested co-operation; and

The Buffalo Club, for hospitalities extended.

[The three resolutions were adopted, after which the conference adjourned.]
Delegates Representing States.
Delegates Representing Educational Institutions.
Delegates Representing State Associations of Certified Public Accountants.
Visitors Other than Delegates.
Committees.
Constitution of the National Tax Association.
Reply of Mr. Pollock to Messrs. Purdy and Pleydell.

I. DELEGATES REPRESENTING STATES AND COUNTRIES

* indicates those in attendance.
* indicates member of National Tax Association.

Alabama:
  PROF. LEE BIDGOOD, Univ. of Alabama, University.
  T. C. McCORVEY, University.
  H. U. SIMS, Birmingham.

Arizona:
  m* C. M. ZANDER, Chairman State Tax Commission, Phoenix.
  m* P. J. MILLER, Member State Tax Commission, Phoenix.
  BERNARD CUNNIFF, CROWN KING.

Arkansas:
  D. A. GATES, Chairman State Tax Commission, Little Rock.
  F. E. BROWN, Member State Tax Commission, Little Rock.
  A. C. MARTINEAU, Member State Tax Commission, Little Rock.
  m GEORGE VAUGHAN, Little Rock.
  PROF. C. H. BROUGH, Univ. of Arkansas, Fayetteville.

California:
  m* JOHN MITCHELL, Chairman State Board of Equalization, Sacramento.

Colorado:
  m* J. FRANK ADAMS, Chairman State Tax Commission, Denver.
  m* CELSUS P. LINK, Member State Tax Commission, Denver.
  m JOHN B. PHILLIPS, Member State Tax Commission, Denver.

Connecticut:
  m* WILLIAM H. CORBIN, State Tax Commissioner, Hartford.
  m* WILLIAM S. PARDEE, New Haven.
  m* PROF. F. R. FAIRCCHILD, Yale University, New Haven.
Florida:

m* John Neel, Chairman State Tax Commission, Tallahassee.
* John S. Edwards, Member State Tax Commission, Tallahassee.
Robert J. Paterson, Member State Tax Commission, Tallahassee.

Georgia:

John C. Hart, State Tax Commissioner, Atlanta.
Crawford Wheatley, Americus.
L. R. Akin, Brunswick.
W. W. Stark, Commerce.
B. S. Miller, Columbus.
E. C. Kontz, Atlanta.
C. M. Candler, Atlanta.
D. C. Cole, Cartersville.
W. D. McNeil, Macon.
T. G. Dorough, Royston.

Idaho:

m* A. P. Ramstedt, Chairman State Tax Commission, Boise.
m E. D. Farming, Sandpoint.
W. L. Shattuck, Idaho Falls.

Illinois:

W. L. O'Connell, County Treasurer, Chicago.
Fred W. Blocki, County Assessor, Chicago.
W. H. Weber, County Assessor, Chicago.
F. W. Koralski, County Assessor, Chicago.
Michael Sheridan, County Assessor, Chicago.
D. M. Pfaelzer, County Assessor, Chicago.
Prof. David Kinley, Univ. of Illinois, Urbana.
m* F. P. Crandon, C. & N. W. Ry., Chicago.
D. W. Helm, Metropolis.
M. L. Igoe, Chicago.

Indiana:

m* D. M. Link, Member State Tax Commission, Indianapolis.
m* E. H. Wolcott, Member State Tax Commission, Indianapolis.
m* J. A. Houck, Member State Tax Commission, Indianapolis.

Iowa:

J. H. Allen, Pocahontas.
M. H. Cohen, Des Moines.
J. H. McConlogue, Mason City.
George White, Nevada.
Frank Pierce, Marshalltown.
John W. Jacobs, Lake City.
Kansas:
  m* S. T. Howe, Chairman State Tax Commission, Topeka.
  m* Jacob Hostetler, Member State Tax Commission, Topeka.
  m* J. A. Burnette, Member State Tax Commission, Topeka.

Kentucky:
  W. H. Mackoy, Covington.
  m* William A. Robinson, Louisville.
  Hunter Wood, Hopkinsville.
  H. S. Barker, Lexington.
  W. H. Bartholomew, Louisville.
  H. H. Cherry, Bowling Green.

Louisiana:
  Prof. M. A. Aldrich, Tulane University, New Orleans.
  Prof. M. J. White, Tulane University, New Orleans.
  m W. O. Hart, New Orleans.
  Prof. W. O. Scroggs, Louisiana University, Baton Rouge.
  W. J. Burke, New Iberia.
  Robert Roberts, Minden.

Maine:
  m* B. G. McIntyre, State Assessor, East Waterford.
  * E. M. Johnston, State Assessor, Brownsville.
  John J. Dearborn, State Assessor, Newburgh.
  m* C. F. Robinson, Portland.
  * W. J. Thompson, South China.

Maryland:
  m Oscar Leser, Judge Appeal Tax Court, Baltimore.
  m* Allan C. Girdwood, Secretary Special Tax Commission, Baltimore.
  Buchanan Schley, State Tax Commissioner, Hagerstown.

Massachusetts:
  m* W. D. T. Trefry, State Tax Commissioner, Boston.
  m* C. A. Andrews, Deputy Tax Commissioner, Boston.
  m* Prof. C. J. Bullock, Harvard University, Cambridge.

Michigan:
  C. F. Merrifield, Grand Rapids.
  * J. J. Jakway, Benton Harbor.
  D. A. Fitzgibbon, Port Huron.
  m* Dallas Boudeman, Kalamazoo.
  A. D. Edwards, Houghton.
  John Nagel, Detroit.

Minnesota:
  * J. G. Armson, Chairman State Tax Commission, St. Paul.
  m* Samuel Lord, Member State Tax Commission, St. Paul.
LIST OF DELEGATES

Mississippi:
D. L. Thompson, State Auditor, Jackson.
P. S. Stovall, State Treasurer, Jackson.
E. S. Middleton, Jackson.
Joseph Norwood, Magnolia.

Missouri:
J. W. Sullinger, King City.
E. B. Silvers, Butler.
Louis Houck, Cape Girardeau.
S. J. Roy, Hannibal.
G. F. Berry, Springfield.
Jewell Mayes, Richmond.

Montana:
m* G. M. Houtz, State Tax Commissioner, Helena.
m* W. C. Rae, State Treasurer, Helena.

Nebraska:
m* C. A. Schappel, Member Special Tax Commission, Pawnee City.

Nevada:
m* J. F. Shaughnessy, Member State Tax Commission, Carson City.
E. D. Boyle, Member State Tax Commission, Carson City.
C. H. Colburn, Member State Tax Commission, Carson City.

New Jersey:
m* T. B. Usher, Jersey City.
m Frank B. Jess, Chairman State Board of Equalization, Haddon Heights.
A. T. Holley, Member State Board of Equalization, Hackensack.
E. A. Armstrong, Camden.
m* A. C. Pleydell, Plainfield.
* John P. Dullard, Trenton.
Alexander McLean, Jersey City.

New Mexico:
m Frank W. Clancy, Attorney General, Santa Fe.
W. B. Walton, Silver City.
H. L. Bickley, Raton.

New York:
J. J. Albright, Buffalo.
W. W. Austin, Rochester.
Frank Bailey, Title Guaranty & Trust Co., Brooklyn.
D. Bobbett, Albany.
LIST OF DELEGATES

John Brennan, Hudson Register, Hudson.
Charles S. Bishop, Western Savings Bank, Buffalo.
Howard H. Baker, Third National Bank, Buffalo.
* A. D. Bissell, Peoples Bank, Buffalo.
E. H. Butler, Buffalo.
William Berri, Brooklyn Standard Union, Brooklyn.
* George B. Burd, Buffalo.
August Becker, Buffalo.

* James A. Betts, Kingston.

* Thomas F. Byrnes, Chairman State Tax Commission, Albany.
  Walter T. Burns, New York City.

* Henry D. Brewster, Syracuse.
* Joseph Block, Citizens Bank of Buffalo, Buffalo.
  Alfred A. Berrick, Buffalo Loan Trust & Safe Co., Buffalo.
* C. M. Bushnell, Buffalo.
* Cornelius F. Burns, Mayor, Troy.
* Oliver Cabana, Jr., German-American Bank, Buffalo.

Thomas J. Creamer, Member Special Tax Commission, N. Y. City.
Parker Corning, Albany.
W. J. Connors, Buffalo.
E. E. Coatsworth, Buffalo.
G. Clinton, Buffalo.
Spencer Clinton, Buffalo.
Robert M. Chalmers, Albany.
Frank Chapman, Ogdensburg.
John M. Cantwell, Malone.
Michael Coleman, New York City.
Sig Cedarstrom, Brooklyn.
* John G. Cloak, Buffalo.
W. C. Dudley, Buffalo.
* James T. Driscoll, Buffalo.
* Louis E. Desbecker, Buffalo.
R. J. Donahue, Ogdensburg.
Robert E. Dowling, New York City.
Edgar Denton, Elmira.
R. S. Donaldson, Erie County Savings Bank, Buffalo.
Jacob Eichenbronner, Albany.
Henry Erb, Western Savings Bank, Buffalo.
Joseph H. Esquirol, Brooklyn.
Lewis W. Emerson, Warrensburg.
Robert L. Fryer, Fidelity Trust Co., Buffalo.
* Simon Fleischmann, Buffalo.
* Charles J. Fix, American Savings Bank, Buffalo.
Harry Furman, Schenectady.
Harvey Ferris, Utica.
LIST OF DELEGATES

* W. N. Giles, Secretary State Grange, Skaneateles.
Charles L. Gurney, Buffalo Savings Bank, Buffalo.
W. F. Hopkins, Third National Bank, Buffalo.
C. R. Huntley, Peoples Bank, Buffalo.
George R. Howard, Erie County Savings Bank, Buffalo.
James S. Havens, Rochester.
Albert Hessberg, Albany.
William W. B. Hoyt, Buffalo.
John J. Hopper, Member Special Tax Commission, N. Y. City.
* William Hickey, Kinderhook.
* Edwin L. Heydecker, Member Special Tax Commission, N. Y. City.
Henry W. Hill, Buffalo.
Clark H. Hammond, Corporation Counsel, Buffalo.
Albert Haight, Judge Court of Appeals, Buffalo.
John Henry, Albany.
John C. Howard, Ogdensburg.
M* Alfred E. Holcomb, American Tel. & Tel. Co., New York City.
Edward S. Harris, Deputy State Comptroller, Albany.
Joseph Hirschfield, Brooklyn.
Marcus T. Hun, Albany.
Charles J. Herrick, Albany.
M* John Hannan, Ogdensburg.
Andrew Irving, Ogdensburg.
John B. Judson, Gloversville.
Willis Sharp Kilmer, Binghamton.
John A. Kloepper, Union Stock Yard Bank, Buffalo.
Daniel J. Kenefick, Buffalo.
William H. Keeler, Albany.
Peter D. Kernan, Albany.
Edwin Knickerbocker, Bengal.
John D. Kernan, Elmira.
S. H. Knox, Columbia National Bank, Buffalo.
William Lansill, Union Stock Yard Bank, Buffalo.
J. H. Lascelles, Marine National Bank, Buffalo.
Guy Lansing, Selkirk.
* William Lustgarten, Member Special Tax Commission, New York City.
Frank D. Locke, Fidelity Trust Co., Buffalo.
* F. M. Loomis, Buffalo.
Thomas Lockwood, Buffalo.
* Loran L. Lewis, Buffalo.
* Herbert A. Meldrum, American Savings Bank, Buffalo.
* Barry Murphy, Medina.
Suvet Meed, Plattsburg.
Andrew McLean, Brooklyn.
St. Clair McKelway, Brooklyn.
LIST OF DELEGATES

ALONZO C. MOTHER, Union Stock Yard Bank, Buffalo.

CLARENCE S. McCLENNAN, Mount Vernon.

A. MOOT, Buffalo.

*N. MOREY, Buffalo.

DANIEL V. MURPHY, Buffalo.

V. EVERITT MACY, Ossining.

WILLIAM MCDONALD, Board of Claims, Albany.

JOHN F. MALONE, Buffalo.

ROBERT J. MOORE, Niagara Falls.

E. O. MCNAIR, Commonwealth Trust Co., Buffalo.

E. G. S. MILLER, Buffalo Loan, Trust & Safe Co., Buffalo.

M. F. MITCHELL, Yonkers.

ELLIOTT MCDUGAL, Bank of Buffalo, Buffalo.

NORMAN E. MACK, Buffalo.

PORTER NORTON, Buffalo.

JAMES M. E. O'GRADY, Rochester.

E. A. O'HARA, Syracuse Herald, Syracuse.

FRANK O'SOBORN, Catskill.

E. R. O'MALLEY, Buffalo.


CURTIS A. PETERS, Tax Dept.-Corporation Counsel, N. Y. City.

LAWSON PURDY, President, Dept. of Taxes, New York City.

VAN NESS PHILIPS, Claverack.

RALPH PULITZER, New York City.

JOHN POMMER, Albany.

J. I. PRETISS, Citizens Bank of Buffalo, Buffalo.

HENRY PURCELL, Watertown.

GEORGE W. PERKINS, New York City.

JAMES REYNOLDS, Kinderhook.

JOHN W. ROBINSON, Third National Bank, Buffalo.

ROBERT K. ROOT, Market Bank, Buffalo.

G. B. RICH, Erie County Savings Bank, Buffalo.

ALLAN ROBINSON, Pres. Allied Real Estate Interests, New York.

GEORGE F. RAND, Columbia National Bank, Buffalo.

L. D. RUMSEY, Bank of Buffalo, Buffalo.

JAMES M. ROZAN, Buffalo.

S. J. RAMSPERGER, Buffalo.

GEORGE F. SMALL, Buffalo.

CHARLES H. STRONG, Counsel Special Tax Commission, N. Y. City.

THOMAS SPRATT, Ogdensburg.

FRANK W. STEVENS, Jamestown.

HUBERT C. STRATTON, Norwich.

JOSEPH S. SCHWAB, Member State Tax Commission, Albany.

WILLIAM H. SULLIVAN, Member State Tax Commission, Albany.

JOHN E. SULLIVAN, Brooklyn.

IRA L. SNELL, Oneida.

PROF. E. R. A. SELIGMAN, Columbia University, New York City.
LIST OF DELEGATES

J. J. Siegrist, Citizens Bank of Buffalo, Buffalo.
J. F. Schoellkopf, Columbia National Bank, Buffalo.
J. M. Satterfield, American Savings Bank, Buffalo.
Jacob J. Stein, Buffalo.
James G. Smith, Buffalo.
Moses Shire, Buffalo.
A. Page Smith, Albany.
Jacob H. Schiff, New York City.
Charles Tremain, Ithaca.
* Daniel F. Toomey, Dunkirk.
James F. Tracey, Albany.
E. C. Townsend, Buffalo Savings Bank, Buffalo.
* Prof. Leslie J. Tompkins, New York City.
Robert Titus, Buffalo.
* C. F. Tabor, Buffalo.
* Charles E. Thompson, Chairman Cortland Co. Board of Supervisors, Cortland.
* W. E. Toomey, Chairman Montgomery Co. Board of Supervisors, Amsterdam.
* George Urban, Jr., Buffalo.
* John Veeder, Chairman Schenectady Co. Board of Supervisors, Schenectady.
* Sheldon T. Viele, Buffalo.
Robert B. Van Cortland, Mount Kisco.
Ervin Wardman, New York City.
Albert J. Wheller, Western Savings Bank, Buffalo.
Waldron Williams, Rye.
Charles L. A. Whitney, Loudonville.

M. L. D. Woodworth, Rochester.
* George W. Whitehead, Niagara Falls.
Harry D. Williams, Buffalo.
Robert E. Whalen, Albany.
* E. Herman Wakelee, Big Flats.
G. B. Wende, Buffalo.
Harry Yates, Commonwealth Trust Co., Buffalo.
* Prof. Allyn A. Young, Member Special Tax Commission, Cornell University, Ithaca.
Harry C. Zeller, German-American Bank, Buffalo.

North Carolina:

* Prof. C. L. Raper, University of North Carolina, Chapel Hill.

North Dakota:

C. O. Jorgenson, Bismarek.
Addison Leech, Fargo.
LIST OF DELEGATES

James A. Brown, Rolla.
H. H. Harmon, Mandan.
W. C. Gibb, Stanley.
W. F. Kelley, Hettinger.

Ohio:

m* F. E. Munn, Member State Tax Commission, Columbus.

m* A. B. Peckinpaugh, Member State Tax Commission, Columbus.

m Chris Pabst, Member State Tax Commission, Columbus.

*B. E. Williamson, Secretary State Tax Commission, Columbus.

M. A. Warnes, Millersburg.

W. F. Malone, Board of Review, Toledo.

m* C. M. Luthy, Board of Review, Columbus.

Oklahoma:

H. L. Harrell, Ass't Secy. of State, Oklahoma City.

m Charles West, Attorney General Oklahoma City.

Clyde Lisman, Oklahoma City.

P. K. Reiss, Oklahoma City.

m E. E. Westervelt, Oklahoma City.

W. E. Hudson, Tulsa.

Oregon:

m Charles V. Galloway, State Tax Commissioner, Salem.

m F. W. Mulkey, Portland.

m Henry E. Reed, County Assessor, Portland.

Pennsylvania:

* J. V. Murray, Dept. of Auditor General, Harrisburg.

m Francis S. Brown, Philadelphia.

m* George M. Hosack, Pittsburgh.

m* N. E. Hause, Harrisburg.

Rhode Island:

m* Zenas W. Bliss, Chairman State Tax Commission, Providence.

m* Frank F. Davis, Member State Tax Commission, Providence.

m* J. P. Mahoney, Member State Tax Commission, Providence.

m* E. P. Tobie, Chief Clerk, B'd of State Tax Com'rs, Providence.

* O. A. Bennett, Woonsocket.

South Carolina:

R. C. Watts, Associate Justice Supreme Court, Cheraw.

John L. McLaurin, Bennettsville.

m George R. Rembert, Columbia.
LIST OF DElegates

South Dakota:

m C. M. HENRY, Chairman State Tax Commission, Pierre.
H. C. PRESTON, Member State Tax Commission, Pierre.
HUGH SMITH, Member State Tax Commission, Pierre.
JOHN B. HANTEN, Watertown.
m PROF. H. K. WARREN, Yankton College, Yankton.
OSCAR LARSON, Valley Springs.
W. R. RONALD, Mitchell.
N. T. MASON, Deadwood.
W. S. ELDER, Deadwood.

Tennessee:

B. A. ENLOE, Railroad Commissioner, Nashville.
GEORGE P. WOOLLEN, State Comptroller, Nashville.
R. R. SNEED, Secretary of State, Nashville.
W. P. HICKERSON, State Treasurer, Nashville.
J. T. WILLINGHAM, Memphis.
HORACE VANDEVENTER, Knoxville.

Texas:

m A. L. LOVE, State Tax Commissioner, Austin.
A. V. SMITH, San Antonio.
GUS REININGER, New Braunfels.

Utah:

m* WILLIAM BAILEY, Chairman State Board of Equalization, Nephi.
m* A. S. GABBOtt, Member State Board of Equalization, Salt Lake City.
m* L. G. KELLEY, State Auditor, Salt Lake City.

Vermont:

m* CHARLES A. PLUMLEY, State Tax Commissioner, Northfield.
* AMOS J. EATONS, So. Royalton.

Virginia:

M. W. WILLIAMS, Pearisburg.
GEORGE B. KEZZELL, Harrisonburg.
R. E. BYRD, Richmond.
D. S. FREEMAN, Richmond.
W. A. LAND, Blackstone.

Washington:

m* CHARLES H. SHIELDS, Seattle.
LIST OF DELEGATES

West Virginia:
Fred O. Blue, State Tax Commissioner, Charleston.
J. F. Strother, Welch.
F. W. Nesbitt, Wheeling.
J. L. Hatfield, Morgantown.
M. L. Lowther, Parkersburg.

Wisconsin:
* Nils P. Haugen, Chairman State Tax Commission, Madison.
* Thomas E. Lyons, Member State Tax Commission, Madison.
* Thomas S. Adams, Member State Tax Commission, Madison.
* A. J. Myrland, Secretary State Tax Commission, Madison.

Wyoming:
* John McGill, State Tax Commissioner, Cheyenne.
N. E. Corthell, Laramie.

Porto Rico:
* Allan H. Richardson, Treasurer of Porto Rico, San Juan.

Dominion of Canada:
* Adam Shortt, Member Civil Service Commission, Ottawa.

II. DELEGATES REPRESENTING UNIVERSITIES

Yale University:
* Prof. F. R. Fairchild, New Haven, Connecticut.

Trinity College:
* Lawson Purdy, New York City.

Georgetown University:
* M. M. Flannery, Bureau of Corporations, Washington, D. C.
Rev. J. H. Richards, Buffalo, N. Y.
* F. L. Devereux, New York City.
* Maurice C. Spratt, Buffalo, N. Y.

University of Illinois:
* Prof. John A. Fairlie, Urbana, Illinois.

Northwestern University:
* F. P. Crandon, Chicago, Illinois.

Iowa State College:
* Prof. J. E. Brindley, Ames, Iowa.

Harvard University:
* Prof. C. J. Bullock, Cambridge, Mass.
University of Michigan:
  * Prof. H. G. Hayes, Ann Arbor, Michigan.

University of Detroit:
  m* John A. Russell, Detroit, Michigan.

University of Missouri:
  Prof. H. J. Davenport, Columbia, Missouri.

Columbia University:
  m* Prof. E. R. A. Seligman, New York City.
  m* J. Parke Channing, New York City.
  m* E. L. Heydecker, New York City.

Colgate University:
  m* Prof. E. W. Goodhue, Hamilton, New York.

Cornell University:
  m* Prof. A. A. Young, Ithaca, New York.
  m* Prof. Roy G. Blakey, Ithaca, New York.

New York University:
  * Prof. Joseph French Johnson, New York City.
  * Prof. Leslie J. Tompkins, New York City.

Union College:
  Edward P. White, Buffalo, New York.

University of North Carolina:
  m* Prof. C. L. Raper, Chapel Hill, N. C.

Miami University:
  m* Prof. Edwin S. Todd, Oxford, Ohio.

Oberlin College:
  * Prof. Harley L. Lutz, Oberlin, Ohio.

Ohio State University:
  m* Prof. O. C. Lockhart, Columbus, Ohio.

University of Pittsburgh:
  * Prof. J. T. Holdsworth, Pittsburgh, Pa.

University of Vermont:
  * Prof. George G. Groat, Burlington, Vt.

University of Virginia:
  * Prof. T. W. Page, University, Va.
III. DELEGATES REPRESENTING STATE ASSOCIATIONS OF CERTIFIED PUBLIC ACCOUNTANTS

Massachusetts:
  GEORGE L. BISHOP, Boston.
  H. F. FRENCH, Boston.
  W. C. WRYE, Boston.

Minnesota:
  H. M. TEMPLE, St. Paul.
  F. W. WENDEL, Minneapolis.
  N. B. HINCKLEY, St. Paul.

New York:
  * HENRY S. CHAMPLIN, Buffalo.
  W. J. GUNNELL, Buffalo.

Pennsylvania:
  T. EDWARD ROSS, Philadelphia.
  A. A. ROSS, Philadelphia.
  J. W. FERNLEY, Philadelphia.

IV. VISITORS OTHER THAN DELEGATES

Colorado:
  M. S. E. HAMER, Mountain States Tel. & Tel. Co., Denver.

Connecticut:

Idaho:
  M. W. D. HUMISTON, Potlatch.

Illinois:
  O. B. COCHRUM, N. Y. Central Lines, Chicago.
  M. H. D. HOWE, N. Y. Central Lines, Chicago.
  H. L. McCONNELL, N. Y. Central Lines, Chicago.
  M. H. W. PADDOCK, Chicago Telephone Company, Chicago.
  M. G. G. TUNELL, Atchison, Topeka & Santa Fe Ry., Chicago.

Indiana:
  M. P. M. MARTIN, N. Y. Central Lines, Indianapolis.
  C. M. RAPHUN, Chamber of Commerce, Indianapolis.

Iowa:
  M. A. H. DAVIDSON, Secretary Executive Council, Des Moines.

Maryland:
  M. E. J. GRIFFITH, Baltimore & Ohio Ry., Baltimore.
LIST OF VISITORS

Massachusetts:
  m C. B. Fillibrown, Boston.
  m W. A. Ogg, Boston.
    F. E. Smith, Chicopee Falls.

Michigan:
  m W. P. Belden, Ishpeming.
  m S. H. Kelley, Michigan Central Ry., Lansing.

New Jersey:
  m John L. Carroll, Chairman City Tax Board, Newark.
    John Howe, Newark.
  m C. B. Pierce, Cranford.
    T. F. Preston, Member City Tax Board, Newark.
    Moses Reichman, Member City Tax Board, Newark.
    A. W. Swain, Member City Tax Board, Newark.

New York:
  H. A. Hickman, City Tax Attorney, Buffalo.
  F. P. Jones, Buffalo.
  Wm. G. Justice, City Comptroller, Buffalo.
  m R. J. LeBoeuf, Albany.
    L. L. Lewis, Buffalo.
  m C. T. Lloyd, New Rochelle.
    J. T. Mahoney, City Assessor, Buffalo.
    J. A. Maloney, Erie Railroad, New York.
    J. D. Miller, Brooklyn.
    N. Mead, State Tax Dept., Albany.
    A. R. Meredith, Buffalo.
    A. L. McAdam, Attorney, Oneida Co., Board of Supervisors, Rome.
    J. A. McQuade, State Tax Dept., Albany.
    E. W. Montgomery, Buffalo.
    H. D. Parr, State Tax Dept., Albany.
    M. P. Porter, Buffalo.
  m George C. Pratt, Western Electric Co., New York.
    H. H. Rathyen, City Finance Dept., New York.
    Ernest Rankin, N. Y. Central Lines, Buffalo.
    John Reimann, City Treasurer, Buffalo.
    R. K. Robertson, Ass’t City Attorney, Buffalo.
    L. K. Rockefeller, State Comptroller’s Dept., Albany.
  m J. S. Rockwell, B. R. & P. R. R., Rochester.
    J. B. Allen, State Tax Department, Albany.
    F. W. Ashford, Buffalo.
LIST OF VISITORS

F. E. Bard, County Treasurer, Buffalo.
J. C. Betz, City Assessor, Buffalo.
D. D. Bidwell, Buffalo.
F. D. Bidwell, State Tax Department, Albany.
J. M. Brown, Buffalo.
W. J. Burke, City Assessor, Buffalo.
H. J. Cookingham, Jr., Attorney Oneida Co., Board of Supervisors, Utica.
T. J. Cummings, Dunkirk.
Jos. B. Cunningham, Secretary State Tax Com'n, Albany.
Moses T. Day, County B'd of Supervisors, Buffalo.
P. J. Davy, City Assessor, Niagara Falls.
G. J. Devine, State Tax Department, Albany.
J. A. R. Duntze, City Tax Department, New York City.
William Elmer, Pennsylvania Railroad, Buffalo.
Alfred Ely, New York City.
S. H. Farnham, Remington Company, Brooklyn.
C. P. Fell, Buffalo.
George H. Foster, Lehigh Valley Railroad, New York.
H. H. Freeman, Buffalo.
G. A. Halbin, City Tax Dept., Buffalo.
J. J. Hattendenbrum, State Tax Dept., Albany.
C. P. Ross, Lehigh Valley Ry., Geneva.
William Ryan, New York.
W. F. Salisbury, Buffalo.
L. L. Sheppard, Brooklyn.
J. G. Simpson, Albion.
F. L. Smith, Silver Creek.
E. D. Spencer, Mortgage Tax Examiner, Albany.
Martin Taylor, New York.
P. W. Taylor, City Tax Dept., Buffalo.
W. H. Vary, Master State Grange, Watertown.
Dorr Viele, Buffalo.
A. Weymann, New York.
I. H. Wise, Chamber of Commerce, Syracuse.
E. E. Woodbury, Jamestown.
Roy H. Woodbury, Jamestown.
North Dakota:
m L. E. Birdzell, Chairman State Tax Commission, Bismarck.

Ohio:
H. P. Boynton, Cleveland.
m A. R. Foote, Columbus.
J. G. Hunt, Fremont.
m W. L. Mattoon, Hocking Valley Ry., Columbus.
m W. W. Pollock, Cleveland.
m George E. Pomeroy, Toledo.
F. M. Whitlock, Marietta.

Pennsylvania:
m S. G. Cramp, Pennsylvania Lines, Pittsburgh.
m I. T. Hartzog, Co. Bethlehem.
R. S. Henderson, Bell Tel. Co. of Pa., Philadelphia.
C. C. Lawson, Bell Tel. Co. of Pa., Philadelphia.
C. L. Ritchie, Bell Tel. Co. of Pa., Philadelphia.
Hall Hill, Pittsburgh.
W. W. Mayer, Philadelphia.
H. A. Reminger, Allentown.
F. M. Schilling, Allentown.

Wisconsin:
m L. A. Arnold, City Tax Commissioner, Milwaukee.
m A. S. Dudley, C. M. & St. P. Ry., Milwaukee.
m John Harrington, Wisconsin Tax Commission, Madison.

SUMMARY

Delegates

<table>
<thead>
<tr>
<th>Number representing</th>
<th>States</th>
<th>Universities</th>
<th>Accounting Associations</th>
<th>Canada</th>
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</table>

Total ........................................ 414

Representing 46 States, the District of Columbia, Porto Rico and the Dominion of Canada; and 22 Universities in 12 States and the District of Columbia.

Of the above, 97 are members of the National Tax Association.

Attendance

Delegates (duplications excluded) from 30 States .................. 132
Others (from 15 states) .................................. 119

Total ........................................ 251

From 31 States, Dist. of Columbia, Porto Rico and Canada.

Of the above, 109 are members of the National Tax Association.
V. COMMITTEES

COMMITTEE ON CREDENTIALS

A. E. Holcomb ............................................. New York.
T. S. Adams .............................................. Wisconsin.
C. A. Andrews ............................................. Massachusetts.

NEW YORK COMMITTEE ON ARRANGEMENTS

Hon. Thomas F. Byrnes, Chairman, Albany, N. Y., Chairman State Board of Tax Commissioners.

Hon. Louis P. Fuhrmann, Mayor of Buffalo.

Hon. John Reimann, City Treasurer.

Hon. William G. Justice, City Comptroller.

Hon. John Fries, Chairman Committee on Taxes and Assessments of Board of Aldermen.

Hon. John C. Betz.

Hon. William J. Burke.

Hon. John T. Mahoney.

Hon. Herbert A. Meldrum, President Buffalo Chamber of Commerce.

Hon. Henry B. Saunders, Convention Commissioner, Chamber of Commerce.

Hon. Thomas T. Ramsdell, Buffalo, N. Y.

Hon. Franklin H. Bard, Treasurer of Erie County.

Hon. Moses T. Day, Chairman Committee on Taxes and Assessments of Erie County Board of Supervisors.

OFFICIAL REPORTER FOR THE CONFERENCE

E. J. Koester, Wisconsin Tax Commission, Madison, Wis.
VI. CONSTITUTION OF THE NATIONAL TAX ASSOCIATION

As amended at its Seventh Annual Meeting, held at Buffalo, New York, October 25, 1913

ARTICLE I
NAME AND OBJECTS

Section 1. The name of this association shall be "National Tax Association."

Sec. 2. Its objects shall be to formulate and announce, through the deliberately expressed opinion of an annual conference, the best informed economic thought and ripest administrative experience available for the correct guidance of public opinion, legislative and administrative action on all questions pertaining to taxation, and to interstate comity in taxation.

ARTICLE II
MEMBERSHIP

Section 1. Any person in sympathy with the objects of the association shall be eligible to membership. All memberships shall be continuing and the dues therefore shall be paid annually unless the membership is discontinued by reason of death, resignation or non-payment of dues.

Sec. 2. The annual membership dues shall be five dollars, and shall be payable in advance, on the date of the application for membership, and annually thereafter. Any member who shall fail to pay his dues within one year from the date when payable shall be dropped from membership on account of such non-payment.

Sec. 3. All members not in arrears for annual dues shall be entitled to receive, without charge, one copy of the proceedings of the annual conference for the current year, and one copy of such reports, bulletins, pamphlets, and documents as may be issued by the association from time to time for general circulation.

ARTICLE III
ANNUAL CONFERENCE

Section 1. An annual national conference on taxation shall be held under the auspices of this association during the month of September in each year, or at such time and place as its executive committee may determine. The details of each conference shall be arranged by the
executive committee in co-operation with such special and standing committees as may be created by this association at its annual meetings for such purpose.

Sec. 2. The administrative personnel of each annual conference shall be composed of three delegates appointed by the governor of each state, and public officials holding legislative or administrative positions charged with the duty of investigating, legislating upon, or administering tax laws.

Sec. 3. The educational personnel of each annual conference shall be composed of persons identified with universities and colleges that maintain a special course in public finance, or at which that subject receives special attention in a general course of economics; members of the profession of certified public accountants; and public men, editors, writers and speakers who hold no educational or official position but who have developed a special interest in the subject of taxation.

Sec. 4. The voting power in each conference upon any question involving an official expression of the opinion of the conference shall be vested in delegates appointed by governors of states; universities and colleges, or institutions for higher education, and state associations of certified public accountants, each of whom shall have one vote.

Sec. 5. Voting by proxy shall not be allowed.

Sec. 6. No member of this association shall have the right to vote in any annual conference by virtue of such membership.

Sec. 7. The last session of each annual conference, or so much of it as may be necessary, shall be devoted to the consideration of the report of the conference committee on resolutions and conclusions. The report of this committee, as adopted by the conference, shall be its official expression of opinion, and it shall not be held to have endorsed any other expression of opinion by whomever made. The voting power of the conference upon an official expression of its opinion, is limited with the purpose of safeguarding the conference from the possibility of having its expression of opinion influenced by any class interest; or consideration for those who devote their time to the work or management of this association; or favor for those who contribute money for its support. The annual conference will be the means used by the association for carrying into practical effect its purpose to secure an expression of opinion that will formulate and announce the best informed economic thought and ripest administrative experience available for the correct guidance of public opinion, legislative and administrative action on all questions pertaining to taxation, and to interstate comity in taxation.

Sec. 8. Organization of the Conference. The temporary and permanent chairman; secretary and official stenographer; address of welcome and response to the same; meeting place, accommodations for delegates, and all necessary preliminary details for each conference, and also the program of papers and discussions, shall be arranged for the conference by the executive committee of this association. All other details of the organization and work of the conference shall be arranged
by the delegates present in such manner as they may from time to time decide.

ARTICLE IV

ANNUAL AND SPECIAL MEETINGS OF THE ASSOCIATION

Section 1. The annual meeting of the association shall be held in connection with the annual conference and at such time as the executive committee may determine. Sixty days' notice shall be given to all members of the time and place at which such annual meeting is to be held.

Sec. 2. Special meetings of this association may be held at any time and place, when called by its executive committee. At least thirty days' notice shall be given to all members of each special meeting, which notice shall specify the purpose for which the meeting is called, and no business shall be transacted at such meeting other than that specified in the call.

Sec. 3. A majority of all members present at any annual or special meeting of this association shall constitute a quorum for the transaction of business, but such quorum shall at no time be less than fifteen, and whenever the attendance of members and delegates exceeds one hundred, twenty-five shall constitute a quorum.

ARTICLE V

OFFICERS AND EXECUTIVE COMMITTEE

Section 1. The work and affairs of this association shall be administered by a president, a vice-president, a secretary, a treasurer and an executive committee, consisting of the president, vice-president, secretary and nine additional members, all of whom shall be elected by the association at its annual meeting to serve for one year and until their successors are duly elected. Two honorary members of the executive committee may be elected representing the Dominion of Canada.

Sec. 2. The terms of all officers, the members of the executive committee, and of the members of all standing committees created by this association, shall begin thirty days after the date of its annual meeting.

Sec. 3. A vacancy in any office or in the membership of the executive committee or of any standing committee may be filled by the executive committee for the unexpired term.

ARTICLE VI

DUTIES OF OFFICERS AND COMMITTEES

Section 1. The officers of this Association shall perform the customary duties of their respective offices, and such other duties as may be assigned to or required of them from time to time by its executive committee, or by the association.

Sec. 2. When compensation is paid to any officer of this association, the amount thereof shall be fixed by the executive committee, and payment shall be made only as authorized by that committee.
Sec. 3. The Executive Committee shall have power to appoint additional officers, heads of departments and agents, from time to time, prescribe their duties, fix their term of office, and their compensations, and also to appoint standing or special committees and prescribe their powers and duties. All committees appointed by the executive committee shall report to that committee.

Sec. 4. The Executive Committee and all standing committees created by this association shall perform such general and special duties as may be assigned to them by the association.

Sec. 5. Such Standing and Special Committees may be created from time to time by this association as may be deemed necessary for the efficient promotion of the work being undertaken. All committees appointed by the association shall report to the association.

ARTICLE VII
FINANCIAL MANAGEMENT

Section 1. This Association, its Executive Committee, or any of its officers, agents, or employees shall have no power to contract a debt, or liability of any kind, for which the association or its members collectively or individually can be held responsible, in excess of the amount of its funds available for the payment of the same.

Sec. 2. The fiscal year of the association shall begin with the first day of the month of July and end with the last day of the month of June in each year.

Sec. 3. The accounts of the Association for each fiscal year shall be closed on the 30th day of June in each year. They shall be audited by a chartered or certified public accountant, who shall certify to the correctness of the financial reports submitted to the association in its annual meeting.

ARTICLE VIII
GENERAL OFFICES AND LIBRARY

Section 1. The offices and library of this association shall be established and maintained at such place or places as may be determined by its executive committee.

Sec. 2. This Association shall accumulate and properly index, as rapidly as its funds will permit, a reference and circulating library which shall contain one or more copies of every useful leaflet, pamphlet, address, document, and book on the subject of taxation. As far as is possible with the funds available for the purpose, this library shall be kept continuously written up to date and indexed so as to enable its custodian to supply on application correct and full reference to all authorities on any phase of the subject of taxation, the decisions of courts, the statistical results of taxation laws and of changes made in such laws from time to time.
SEC. 3. The services of this library shall be without charge to all members of this association and to all legislative, executive, and judicial officers of states and of their political subdivisions, and to every person desiring to study, discuss or speak upon any feature of the subject of taxation.

ARTICLE IX
PROCEEDINGS AND PUBLICATIONS

SECTION 1. At each annual meeting the association shall elect, or authorize its president to appoint, a standing publication committee, under whose supervision a full report of the proceedings of the annual conference last held shall be edited and published. This committee shall also edit and supervise the publication of all reports, pamphlets, and literature in other forms issued by this association.

SEC. 2. The Executive Committee shall authorize the terms of sale or of distribution of all publications issued by this association.

ARTICLE X
BY-LAWS

SECTION 1. The Executive Committee is authorized to formulate, adopt, and from time to time amend, such by-laws as it may deem necessary for the good government of the affairs of this association, and of the official conduct of its officers and committees.

ARTICLE XI
AMENDMENTS

SECTION 1. This Constitution may be amended at any annual or special meeting of this association by a two-thirds vote of all members present, PROVIDED, the full text of the amendment shall have been submitted to the membership by the executive committee or by the member or members proposing the same, at least thirty days before the date of the meeting at which such proposed amendment is acted upon.
In re "THE SOMERS SYSTEM."

After the Buffalo Conference Mr. W. W. Pollock objected to some of the diagrams printed in Mr. A. W. Pleydell's discussion of the Somers System, on the grounds that they infringed the copyright originally secured by Mr. Somers. At the later date this objection was withdrawn on the condition that Mr. Pollock be permitted to insert the reply now included as Appendix VII.

This reply should in fairness have been submitted for comment to Messrs. Pleydell and Purdy but it was not received until so late that this was impracticable. As a matter of fact it was not submitted to Messrs. Purdy and Pleydell until March 16th when the volume was printed and the binding under way. Under the circumstances they do not wish to undertake a detailed reply which would require an insert that would be detrimental to the volume.

Mr. Pleydell, however, desires to say that his commendation of Mr. Somers in 1909, referred to by Mr. Pollock, was entirely personal and did not relate to or indorse the theories known as "The Somers System"; and that the implication that his opposition to the system was due to, or inspired by, any other person, is unwarranted.

T. S. Adams, Secretary.
VII. REPLY OF MR. POLLOCK TO MESSRS. PURDY AND PLEYDELL

It appears that there are many difficulties in the way of satisfying Mr. Purdy and Mr. Pleydell both as to the policy of using the Somers System and as to the utility of the system as a means of establishing an equitable standard for land valuation. First, Mr. Purdy says that the Somers System is a secret process, and then he submits appraisals computed by the Somers corner tables. And Mr. Pleydell submits an actual corner table of the "secret" system, which he analyzes in the attempt to show its mathematical inaccuracy. He also presents what he says is one of Mr. Somers' "scales" dated 1901, and compares it with what are alleged to be computations from the corner tables dated 1910. Apparently the system is not so "secret" to these gentlemen as they allege, or if it is secret, their computations must be taken with some allowance as to their authenticity.

This discussion in opposition has in large measure ignored the main questions—whether the underlying theories upon which the Somers System is based are true, and whether the Somers System has actually worked satisfactorily in places where it has been used for tax assessment purposes. By directing attention to the differences between tweedledee and tweedledum it may be possible for a time to prevent fair and intelligent discussion of these main questions, which I believe have been fully covered in my printed paper. You will find in that paper a disclaimer of perfection for the system. The scientific valuation of land is new. The possibility of the existence of such a science is even declared by some persons to be out of the question, and that is only to be expected. But the cumulative proof of the worth of the Somers System is too great to be ignored, even though there may fairly be some criticism of the system itself, and of the mathematical tables which are incidental to the use of the system.

Mr. Pleydell was not, as he says, the first person to oppose "the plans of the Manufacturers' Appraisal Company to secure assessment contracts," nor was he the first person to criticize Mr. Somers' methods and to subject them to analysis. If there is any distinction due to anyone for being the first person to oppose the Somers System it belongs to Allen Ripley Foote, of Columbus, Ohio. A short time prior to the opposing declaration by Mr. Foote, Mr. Pleydell wrote a letter strongly recommending the services of Mr. Somers to the Board of Assessors of Columbus. But Mr. Pleydell has more than made up in his activity against the Somers System since Mr. Foote's opposing declaration anything he may have lacked in priority.

Mr. Pleydell has read a letter published in The Philadelphia Record three years ago, which he says he sees no reason for modifying at this time. This letter was full of misstatements and misinterpretations of facts which I will answer briefly in their paragraphic order:
1. The assessment of property for taxation is not and never has been contracted out to private individuals when the Somers System has been used by assessors. To my mind the most important duty of the assessor is the "doing of justice between the individual property owners." The assessor cannot accomplish such justice unless he can make his assessments accurate and proportionate. He cannot do this unless he has a means for measuring his own judgment. The Somers System is a tool which the assessor may use, and which the assessors in a number of American cities have used for measuring their own judgments, and no act connected with the use of the Somers System as applied to land values may be properly interpreted as usurpation of the power of the assessors to fix values.

2. Assessment inequalities have been all but completely corrected in the cities where it has been used, by the adoption of the Somers methods and the use of the Somers mathematical formulae. Not only have inequalities been corrected in a single assessment, but the assessors have found it possible to keep their assessments equitable in after years with much less labor and expense by the continuance of the use of the Somers System.

3. Assessors never surrender their independence by using the Somers System. Instead of the outside company "making" valuations, the assessor makes them. The refusal of the right to assessors to employ expert assistance that they deem will be of value to them will prevent advance in this most important department of the administration of public affairs. The assessor never surrenders his power to change his mind or to use other values than those computed by the Somers System, if he should consider the Somers computations inequitable. But assessors have found them equitable.

4. There has been no more important movement in the direction of training public officials and the taxpayers of the United States in correct principles for the valuation of real estate for purposes of taxation than the campaign which has been conducted during the past four years by representatives of the Somers System. This agitation has had a far-reaching effect in giving both taxation officials and the public a real grasp upon correct principles, where most of the discussion of assessments has in the past been either confusing or of a negative character. The interest of the taxpayer should be the primary consideration, rather than the mere training of the public official who is only a temporary occupant of his position. But in addition to equalizing assessments in the interest of the taxpayer the use of the Somers System has given many assessors a training in the fundamental questions affecting values and valuation that they could have secured in no other way.

5. If assessments are made equal between individuals in the community by the use of the Somers System, the great majority of the intelligent people in that community will understand what makes values and how assessments are to be equalized.

6. Notwithstanding the continuing doubt of Mr. Pleydell in the face of the overwhelming evidence of the value of the Somers System where
it has been used for tax assessment purposes, I can assure him that the Somers System is both new and true. The Somers System principles are not used in New York City, nor are the things that are most valuable in the Somers System used in some other cities which Mr. Pleydell would give great credit to. Even though Mr. Pleydell may not be convinced as to the accuracy of the Somers corner lot tables, either in theory or practice, there are fifteen cities wherein the results of computations by these tables are accepted as fair and equitable by the taxpayers.

In discussing the remarks of Mr. Pleydell, I wish to point out a number of false positions in which he seeks to place the company. We do claim that the Somers System is something which no one else has. It has never been claimed that someone else might not have worked out the Somers System, but the fact is that no one else has worked out either the Somers System or any comprehensive system. Furthermore, the Somers method of obtaining community opinion—which is the basis of all land values—is not practiced and cannot be successfully practiced unless supplemented by the use of a complete computation system. All the other systems recommend the use of mathematics for the simple problems, but when they approach the valuation of corners they ignore the relativity of lot values based upon street accessibility, and attempt to appraise as land value what is really the special value given to lots for special purposes. Mr. Somers has been prodigal, as the Manufacturers' Appraisal Company has been, in giving to the world the theories upon which the system is based. As I have discussed these theories quite at length in my printed paper I shall not go over them again.

The Somers System does not use the "unit lot" value. It does not use "front foot" values. Nor does it take "a standard lot to measure values by." Nor does it publish a "land value map" in the sense that the New York assessing department does. The Somers unit-foot has been fully explained, and an examination of this explanation and my comment thereon will show that none of the things referred to in the first paragraph of Mr. Pleydell's discussion are claimed for the Somers System.

The mathematical relation between the values of two sites affected by the same street influences is one of the fundamentals connected with the use of the Somers System. That mathematical relation is denied by Mr. Pleydell and those who stand with him.

In one of Mr. Somers early publications, (1898) he said: "Site value is fixed and determined by local opinion. As this opinion is the basis of all purchases and sales, it is evident that it is the true measure of the value of the land, and is the measure which must be used in any successful effort to find true and cash value. This opinion may be designated community opinion. The lots in a city are so numerous and of such widely varying shapes and dimensions, and the corner influence is such a disturbing element, that the community opinion as to the value of specific tracts or lots cannot be formed. Notwithstanding, there does exist a community opinion which is just as definite and reliable as
though it extended to specific lots. This is the opinion of the relative values of the streets.'"

To make use of this community opinion in practical assessment work it was found necessary by Mr. Somers to work out a system of rules for developing and recording a consensus of opinion where such consensus of opinion had not already been expressed, and additional rules and tables for calculating from this record the relative value of each lot or tract. That is, the Somers System is based fundamentally upon community opinion in each community where the System is installed, and the first and most important work of the experts of the Manufacturers’ Appraisal Company in assisting assessors in any city is to develop and make a record of the consensus of opinion as to the value of street usefulness as a basis for assessment work. The rules and mathematical tables are used only after this has been accomplished to distribute the community opinion as expressed in street unit values to the individual lots, according to their sizes, shapes, and relations to the various elements of accessibility. Quoting again from Mr. Somers: ‘‘Mathematical tables are merely the most convenient tools that can be used for this purpose.’’

The foregoing statement refers to the principles upon which the Somers System is based. The mathematical tables are not and never have been claimed to be a part of the Somers ‘‘principles’’, but they are rather a means devised by Mr. Somers for carrying out the principles mathematically. Mr. Somers experimented for many years with various curves of value, and developed experimentally many corner computation schemes. It is only within the last few years that he has become satisfied that the actual practice was sufficiently uniform in most cities of the United States to warrant the adoption of a standard curve of value or depth percentage for interior lots; and this depth percentage and the tables developed therefrom have proven satisfactory except in some very small cities and villages, where special curves and corner computations are necessary. The constant effort has been to reduce the labor of applying the system and to increase the efficiency of the accountants who should use it. Many scales and diagrams made experimentally and used in the past have been abandoned when better tools have been developed.

For instance, the discrepancy which Mr. Pleydell claims to have discovered in connection with his Diagram No. 5 grows out of the fact that he has combined in this diagram the effect of an abandoned curve of value with a corner scale constructed from an entirely different curve, and necessarily finds a discrepancy in his figures. He does not question the accuracy or justice of the corner value table of 1910, nor does he raise any question about it, but is much disturbed by the difference between 1910 and some prior scale, which is evidently of an entirely different character and which has no connection whatever with the 1910 corner table. Mr. Pleydell’s deductions and arguments concerning Diagram No. 4 fall flat when it is recognized that the foundation of them is his own comparison of two different things, and his assumption that they are intended to be the same.
TO MESSRS. PURDY AND PLEYDELL

It must be remembered that while the Somers corner tables are the result of much investigation and interpretation of general opinion in many cities as to corner enhancement, they are merely Mr. Somers’ interpretation of what the enhancement at corners is under normal conditions. He does not say that an assessor may and should not make any proper additions or deductions at corners for abnormal conditions, when such conditions are found to exist; but he does say that such modifications should be made to express the assessor’s judgment as for a separate and distinct element of value, and that it should be separately expressed, and not lumped in with normal elements of value. There is no disposition on our part to quarrel with the interpretations of corner enhancement promulgated by other sincere investigators, provided the “principles” upon which such enhancement is based take into consideration all of the elements going to make up corner values. We do not claim to know all there is to know about appraising real estate for tax-assessment purposes. But we do claim that in the use of the Somers System, however far short of perfection it may come, we are able to show assessors how to apply their knowledge of land values in such manner as to make their assessments uniform. And this has never been accomplished by our critics.

As to Mr. Pleydell’s Diagrams Nos. 1, 2 and 3, in which he has ingeniously magnified trivial and fractional differences by comparing differences with differences. It must be remembered that this dividing of a corner table into 100 ten-foot squares is for the purpose of distributing the corner influence to irregular lots, and that it seldom if ever happens that less than 15 or 20 of these squares, or at least parts of 15 or 20 of these squares will be grouped together as a lot. That part of the corner influence lying within 100 feet of the corner, as determined by Mr. Somers, is a fixed sum to be divided into 100 or less parts. It happened that in a few of the corner tables there were slight discrepancies, which, as the work being then only an experiment on a new tool of improved value, were ignored. After several years of tentative use of these tables a form of arrangement of the totals was developed that greatly reduced the labor of using them, and made them efficient and practicable tools. In 1910 it became necessary to use a number of copies of these tables, and they were printed without change. In fact, the discrepancies in these tables were forgotten until after the plates were made. From the nature of the tables and their use the errors are self-corrective, and therefore not of sufficient importance to warrant reprinting them. In practical use these discrepancies have long been corrected, even though they are negligible as applied to any given lot.

Mr. Purdy’s discussion of a corner-lot assessment in Brooklyn is not at all conclusive. He says the unit values of Havemeyer Street and Broadway are $720 and $560 respectively. There can be no conclusion as to such valuations of the Somers quantity-unit without the complete advance publicity compelled by the Somers System methods. The normal value of a corner lot is, we say, in mathematical relation to the effects of accessibility to the intersecting streets. Mr. Purdy says in effect
that the general and normal usefulness of street opportunity should not govern the judgment of corner lot values, but rather the special ability or lack of ability of each landlord to subdivide and enforce a high rental. He would apparently ignore all questions of relations between one lot and all the other lots in the vicinity and in the city when he considers corner-lot values, and would apply the socialistic theory of taxing people upon their ability to pay, rather than upon the normal benefits measured by access to the community life. Whenever these two theories come into conflict, Mr. Purdy would ignore the fundamental elements and would apply the special and temporary influences, no matter how greatly they may conflict with proportion and experience.

It may well be believed that the inequities in assessments in New York which are the subject of daily discussion by the press of that city are due in large measure to the lack of adequate rules for comparative computation. The "Land Value Maps" printed each year in New York are of little benefit, either to assessors or the public. Their publication does not prevent infinite variations in "judgment", while the supposed inconsistencies in the Somers corner table pointed out by Mr. Pleydell would make but a fractional variation in the value of any one lot—perhaps one-tenth of one per cent.

Mr. Purdy's comment on the map showing valuations of land condemned for the new Court House in New York City is interesting. This map was not prepared as a criticism of the assessments, but for the broader purpose of showing the complete lack in New York City, as elsewhere, of a real standard for the valuation of land. All of the six experts, whose appraisals of the lots in this block are shown on the map, gave testimony under oath as to the value of each lot. The assessor also performs his duty under oath. It is manifest that no standard of appraisal was in use, when the six experts gave values to a certain lot of $173,000, $305,635, $190,000, $185,000, $145,996 and $274,500 respectively; when the assessor valued the lot at $114,000 and when Mr. Somers' computation of the same lot was $190,604. The basis of Mr. Somers' computations was the unit values published in Mr. Purdy's "Land Value Maps", but as this lot was of irregular shape, and at a corner, his assessor of course couldn't 'judge' the value accurately. On the interior lots he was lower than all of the other appraisers, but not so low in comparison with his appraisal of the corner lots, because he could use the simple mathematics required to compute a single influence of accessibility, while the mathematics required to compute a corner lot with two or three elements of accessibility were not permitted to his use. It is significant also that the experts who appraised the lot at $305,635 and $173,000 respectively, appraised another lot at $99,610 and $120,500 respectively, the high man in the first instance being the low man in the second instance. The assessor, still lower, appraised the second lot at $65,000, while Mr. Somers' computation from Mr. Purdy's "Land Value Map" unit values gave the second lot a value of $102,012. Is it not evident that the adoption of some standard for appraising real estate in New York City is highly desirable?
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[Names of delegates, pp. 427-439; officers, pp. 5, 6; and committees, 443, are not separately indexed.]

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