

CHAPTER VI.

EFFECT OF THE PERSONALTY TAX ON FARMERS.

§ 1. **The question stated.** Of course there are some forms of personal property which can be seen and appraised by the assessors, almost as readily as real estate, though not with so correct an estimate of value. The objection to taxation of chattels is not that none of them can be taxed; it is that so many of them can be and are reached, while so many more are not, that the tax is necessarily unequal and unjust. The important question, therefore, is, upon what class does this tax bear most oppressively? Is that class the more wealthy or the less wealthy? Is it the city population or the farmers? If taxes were levied only upon the value of real estate, would the farmers pay more or less of the whole taxes than they do now?

Farmers in general have been long convinced that the rigid taxation of personal property would relieve their burdens; and it is entirely by their votes that the existing system is maintained. This is all theory on their part. They have not studied the facts and know nothing about them. They assume that "it must be so."

But let us study the facts, before discussing any theory.

Any attempt to separate the community into two distinct classes, one of which is taxable only on real estate and the other of which is taxable only on personal property, is obviously impossible and absurd. No man is ever reached by the tax-gatherer, who does not occupy some

piece of land. If he did not, the tax-collector would never find him. Tramps pay no direct taxes. Neither can any man live without occupying some improvements on real estate and possessing some personal property. Every taxpayer, without exception, is an occupant of land and improvements upon land, and an owner of personal property. The only selfish interest which any taxpayer has, in deciding between rival systems of taxation, is to know which will produce a sufficient revenue to the state, with the smallest possible burden to him. In considering, therefore, the interest of any class, such as farmers, the real question to be answered is not whether they in fact own more or less personal property than merchants, bankers, and money lenders. The questions to be answered are :

1. Do farmers own less personal property, *in proportion to the value of their land*, than do those other classes ?

2. Are the particular kinds of personal property which they own less easily reached by the tax-gatherer, than are the kinds of property owned by the other classes ?

The state must raise a certain fixed amount for public purposes. This amount it will assess upon all taxpayers, in proportion to the value of their property, as reported by the assessors ; not in proportion to its *real* value ; which the assessors, of course, are never able exactly to ascertain. If, therefore, experience proves that assessors are able to find *twenty* times as much land value in the possession of merchants as they can among farmers, but only *ten* times as much personal property among merchants as they find among farmers, it is a plain result, as simple as the rule of three, that *the taxation of personal property will end in making farmers pay a larger proportion of the taxes* than they would pay if all taxes were concentrated on the value of real estate.

§ 2. **The farmer's idea.** Now the average farmer, no doubt, says at once that this is impossible. He owns, we will say, 100 acres of land ; and he knows of no merchant in any of the great cities who owns as much as one acre. He owns neither stock nor bonds, and has only \$500 in the bank. He knows of 1000 merchants or money lenders who each own \$100,000 or \$1,000,000 in stocks and bonds and keep balances of \$50,000 in the bank. To him, therefore, it seems plain that the exemption of personal property from taxation must make him pay much more, in proportion to his means, than the merchant and banker.

§ 3. **The farmer's error.** But the farmer, in reasoning thus, entirely overlooks the most important facts of the problem, and abandons the common-sense of which he so much boasts. That common-sense would tell him that, just as his one hundred acres are worth far more than 100,000 acres in the midst of Africa, so one tenth of an acre in the heart of a large city is worth more than all his farm. It would also tell him that the assessor can easily count his cattle, horses, sheep, and hogs, and estimate pretty correctly the value of his house and barns ; whereas, the most expert assessor can never find out how many bonds the banker owns, unless he can persuade that banker to tell him ; while in estimating the value of the banker's house and furniture, he might guess at \$10,000, \$25,000, or \$50,000, with a perfectly equal chance of being right or wrong in either case. The banker has chairs standing side by side, apparently of exactly equal value, but one of which cost \$25 and the other \$250. He has two paintings, one of which is five times as large as the other, and which the honest farmer would, therefore, think to be five times as valuable ; whereas in fact the large picture is barely worth \$500, while the small one

would sell as quick as lightning for \$20,000. There are many houses, in large cities, upon the interior decoration of which the owners have spent more than \$100,000. The most experienced assessors would fail to discover that these decorations were really more costly than those in adjoining houses, which in fact did not cost one tenth of that amount.

§ 4. **Taxation of franchises.** Nor is the difficulty of this problem confined to the difficulty which the assessor finds in doing his work. Vast amounts of what are commonly called personal property, and, indeed, the bulk of those things which the average farmer seeks to tax as personal property, consist of really nothing but rights over real estate. Thus the value of bonds of a railroad corporation consists very largely in the land which the company covers by its tracks, engine house, stations, etc.; and the stock of such corporations represents practically nothing else. The franchises of such corporations, which, of course, constitute a larger part of the value of both stocks and bonds, really consist of nothing but the right to use certain tracts of land, to the exclusion of all other persons. Under any proper assessment of the value of land, those franchises would be assessed at their full value; because the franchise of exclusive use is all that gives to any land its commercial value. A system of taxation upon the full value of land would, therefore, levy taxes upon every dollar which corporate franchises are worth. No system of taxation on personal property is needed in the smallest degree for this purpose. It is indeed only a hindrance to it and a convenient means of evading taxation; for the assessor, not being allowed to compute this value, in estimating the value of the land, has to take his chances of finding it under the name of personal property. All mortgages

on land are, of course, practically interests in the land itself, and would be fully taxed under a system of taxation confined to the value of the land. The tax may be collected from either the mortgagor or the mortgagee, as the legislature should think fit. Either plan is perfectly consistent with the exemption of personal property from taxation.

§ 5. The experience of Ohio. In the light of these considerations, let us review some of the statistics furnished from year to year by the official reports of assessors in Ohio, as compiled annually in the auditor's report. For the purpose of such comparison let us set on one side the four counties which include all the largest cities, and on the other side the five counties which contain the smallest proportion of city population among all the counties of Ohio.

The former, which we will call the city counties, include Hamilton, Cuyahoga, Franklin, and Lucas, with the cities of Cincinnati, Cleveland, Columbus, and Toledo.

The latter, which we will call the rural counties, are Geauga, Noble, Carroll, Medina, and Monroe.

These counties respectively represent the extreme contrasts between the cities and the farms of the State. Thus, in Hamilton and Cuyahoga, the assessed value of town lots is about seven times the assessed value of the farms; whereas, in the five rural counties, the assessed value of farms is nowhere less than ten times that of town lots, while, in Geauga County, the farm lots are worth twenty-seven times as much as the town lots. Hamilton County, which includes Cincinnati, is the typical city county of Ohio; while Geauga, which includes no large town, is the typical rural county.

§ 6. Farmers pay largest share of taxes on personal property. Now, the first thing which strikes the eye, on

looking over the statistics of these counties, is the following comparison :

Ohio Valuations, 1887.

	Assessed Val. of Real Est.	Assessed Val. of Chattels.
City counties.....	\$317,854,665	\$113,340,087
Rural counties.....	29,733,450	14,307,668

Any one can see that, in the counties which include all the large cities, the assessed value of personal property is only about one fourth of the whole assessment ; while in the rural counties, personal property constitutes very nearly one third of their whole assessed value. In more exact figures, the value of assessed personal property in the city counties is $26\frac{1}{4}$ per cent. of the whole, while in the rural counties it is $32\frac{1}{2}$ per cent. If, therefore, all personal property should be exempted from taxation, the farmers of these five exclusively rural counties would pay 8 per cent. *less* taxes than they do now.

That this result is not a mere accident, owing to some peculiar condition of these particular counties, is easily proved by testing the same question in other ways. Thus, if we set apart the four great city counties and compare them with all the rest of the State, including farming districts and smaller towns indiscriminately, we find substantially the same result, as follows :

Ohio Valuations, 1887.

	Real Estate.	Personal Property.
City counties	\$317,854,665	\$113,340,087
Remainder of State.....	867,155,960	406,832,007

Here, in the counties which include all the great cities, personal property amounts to $26\frac{1}{4}$ per cent. of the whole valuation ; while in the remainder of the State it amounts to 32 per cent.

But if we compare single counties, such as Hamilton, in which town lots compose about 85 per cent. of all the real estate, with Medina, in which town lots compose only 10 per cent. of the real estate, we find the result as follows :

Ohio Valuations, 1887.

	Real Estate.	Personal Property.
Hamilton.....	\$163,732,580	\$53,144,182
Medina.....	8,304,740	5,012,304

Here we find that the real estate of Hamilton County is assessed at *twenty* times the value of Medina County; while the personal property of Hamilton is assessed at less than *eleven* times that of Medina. Personal property constitutes $24\frac{1}{2}$ per cent. of the valuation of Hamilton, and $37\frac{1}{2}$ per cent. of the valuation of Medina. The total exemption of personal property from taxation, therefore, would, if taxes were divided only between the counties of Hamilton and Medina, relieve the farmers of Medina from exactly *one sixth* of their present burdens. Invariably, farmers are compelled to pay a much larger share of State taxation, as the result of taxing personal property.

§ 8. **Taxation of credits heaviest on farmers.** But let us test this question in still other ways. The chief clamor in favor of taxing personal property has been directed toward the taxation of moneys and credits. The money lender, who is supposed to have vast sums on deposit in bank, and the merchant, who is supposed to have vast outstanding credits due from the poor farmers, are the special objects against whom this method of taxation is aimed—all for the relief of the farmers. Let us see how this works, by a comparison of the same typical counties. The Ohio report for 1887 shows that their relative assessments were as follows:

1887.	Real Estate.	Money.	Credits, etc.
City counties.....	\$317,854,665	\$5,328,050	\$13,291,833
Rural counties.....	29,733,450	907,829	4,384,381

Roughly stated, it thus appears that if taxation were confined to real estate alone, the city counties would pay *eleven* times as much as the rural counties; whereas, if taxation were levied on money alone, they would pay less than *six* times as much, and if levied on credits alone, a little more than *three* times as much; while, if taxation were levied on both money and credits, they would pay about *four* times as much. Consequently, the burden of taxation in rural counties as compared with the large cities is nearly three times as heavy on money and credits as it is on real estate. *The only result, therefore, of taxing money, credits, and similar investments, is to relieve the burden of the cities and increase the burden of the farms.*

Let us test this particular illustration by comparing the County of Hamilton, in which town lots are worth seven times as much as farm lands, with Geauga, in which farm lands are worth twenty-seven times as much as town lots:

1887.	Real Estate.	Money.	Credits.
Hamilton.....	\$162,732,580	\$1,833,279	\$5,735,945
Gauga.....	5,555,800	282,118	534,477

Roughly stated, Hamilton County is assessed for nearly thirty times as much real estate, less than seven times as much money, and less than eleven times as much credits as Geauga County. If taxation were levied exclusively upon money on hand, Geauga County would pay between four and five times as much as it would if the taxes were levied exclusively on real estate. If taxes were levied solely upon credits, Geauga would pay nearly three times as much as it would if they were levied solely on real

estate. There is not much evidence here of any advantage gained by the farmer, through his diligent search after the money lender and the creditor.

§9. The more effective the system, the worse for the farmers. For many years, and in fact persistently ever since 1846, when Ohio adopted the present system of taxation, Ohio farmers have been clamoring more and more loudly for protection from unjust taxation, for greater burdens upon merchants and bankers, and for more stringent enforcement of the law. The tax and assessment laws have been amended, again and again, in obedience to this demand; and State officers have been continually more persistent in their efforts to shift the burden of taxation from farmers to capitalists, by means of a rigorous enforcement of taxation upon personal property. A spy law has been enacted, giving 20 per cent. or more to any spy who will expose false returns of personalty. Let us, therefore, inquire whether there is any tendency to improvement in these respects, and whether the history of the last few years encourages the hope that the evasions of the "Shylocks" can be put an end to and the honest farmer relieved by a more thorough assessment of personal property. For this purpose let us again compare the typical counties of Hamilton and Geauga—the former having an almost exclusively city population and the latter being occupied almost exclusively by farmers, having no village with more than 1000 inhabitants.

§10. Watches, carriages, and money. If there are any items in which the Shylocks ought to make a better showing than the farmers, surely watches, pleasure carriages, money on hand, and credits would stand first on the list. Let us take them in succession:

Number of Watches.	1882.	1887.
Ohio.....	118,286	114,631
Hamilton.....	9,283	8,659
Geauga.....	845	922

These statistics tell a sorrowful tale of poverty and destitution among the poor farmers of Cincinnati; while they indicate that the bloated capitalists of Geauga County are the chief patrons of the fine watchmakers of Paris and Geneva. Let us turn from this sorrowful picture to

Pleasure Carriages.	1882.	1887.
Ohio	254,918	224,440
Hamilton.....	13,710	9,854
Gauga	2,488	1,717

Here one finds some slight relief, not, indeed, in the increasing prosperity of any part of Ohio, but in the fact that the poor farmers of Cincinnati do not seem to have given up any larger proportion of their pleasure carriages than the Shylocks of Geauga; while a desolating wave of poverty has swept over the entire State, resulting in the loss of nearly one eighth of all its vehicles. Walking is evidently becoming fashionable in Ohio. Let us look at

Money on Hand.	1882.	1887.
Ohio	\$46,160,629	\$35,132,131
Hamilton.....	2,321,502	1,833,279
Gauga.....	352,053	282,118

Here, again, a wave of poverty has flooded the whole State, in tolerably equal proportions. Money is evidently rapidly vanishing; for the total stock of the State has fallen off \$11,000,000 in five years, diminishing 25 per cent. in Hamilton, but only 20 per cent. in Geauga. We will now look at

Credits.	1882.	1887.
Ohio.....	\$104,838,938	\$106,173,894
Hamilton.....	6,571,829	5,735,945
Gauga.....	560,693	534,477

Here we see that Ohio, as a state, is a money lender to the extent of one per cent. more in 1887 than in 1882. But again the poor agriculturists of Cincinnati come to

the front, with a loss of \$836,000, or 12½ per cent. of their total stock; while the loss in Geauga County is only about one third as much, or a trifle over 4 per cent.

§ 11. **How Ohio watches go.** In reviewing this sad picture of decline, one is reminded of Goldsmith's melancholy words:

“Where wealth accumulates and men decay.”

But in Ohio it appears that men accumulate and wealth decays; for the population of the State has largely increased, while its wealth is apparently ebbing away. Truly was it said by the wise man of old, that “riches have wings”; for the disappearance of money from Ohio conclusively proves it. Looking at the returns of carriages, one is tempted to think that the principal reason why they have wheels is to enable the owners to take them out of Ohio; and as for the watches, they are certainly not open to the accusation so often brought against French clocks, that they will “never go.” Ohio watches certainly can and do “go,” with a rapidity and steadiness not often equalled.¹

§ 12. **Ohio in 1892.** The foregoing statistics were prepared in 1889; and as no substantial change has taken place in the methods or success of Ohio taxation, it has not seemed worth while to go to the trouble of correcting these statistics by the latest information. But to prove that these figures are just as applicable now as they were in 1887, a few statistics will be given from the official reports of 1892.

¹ The speed of Cincinnati watches has lately increased. The latest report shows that 20 per cent. have “gone,” in the last six years, against only 8 per cent. in the previous six years. The speed of Ohio carriages is even greater; 25 per cent. having gone in six years. The honest farmers have taken the hint, and have dropped 58,000 carriages out of sight—of the assessors. Perhaps the owners have taken to bicycles instead.

By authority of the Legislature of Ohio, Hon. Wm. McKinley, Governor of that State, appointed a tax commission of four members; two being Republicans and two Democrats, but all professing themselves in favor of continuing the tax on personal property. Their report, presented to the Governor on December 23, 1893, confirms all which has been said above. It shows, moreover, that the disproportion between burdens imposed by the tax on personal property upon the cities and upon the farming districts, respectively, has increased considerably since 1887. A few comparisons are here given between the assessments in 1887 and 1892 in Hamilton and Geauga Counties respectively.

Money on Hand.

County.	1882.	1887.	1892.
Hamilton....	\$2,321,502	\$1,833,279	\$1,535,375
Geauga.....	352,053	282,118	451,567

Here it will be seen that the amount of taxable money reported in Geauga, which is a purely farming district, has largely increased, owing to the spy system established by the State. But the amount of taxable money reported in Hamilton County, which includes the great city of Cincinnati, has again largely decreased; the spy system having entirely failed there.

We will now compare results in

Credits.

County.	1882.	1887.	1892.
Hamilton....	\$6,571,029	\$5,735,945	\$4,289,901
Geauga.....	560,693	534,477	507,651

Although there has been a shrinkage of about 5 per cent. in the taxable credits of Geauga, since 1887, that is nothing, compared with the 28 per cent. reduction in Cincinnati.

The Tax Commission Report gives many other most

instructive figures; too many to be repeated here. To mention, however, a few examples, it appears that the County of Lucas, which contains "the flourishing city of Toledo," is rapidly increasing in population, and has more than double the stationary population of Muskingum County, nevertheless returned in 1892 very much less than half as much intangible personal property for taxation, little more than one third as much in credits, and not nearly one third as much in money. Thus the rural county is taxed thrice as heavily as the city. The County of Cuyahoga, including the great city of Cleveland, the population of which is rapidly increasing, and is already about twenty-five times as large as that of Geauga County, returned for taxation less than four times as much money, and much less than seven times as much credits. Thus Geauga was taxed, upon these values, about five times as heavily as Cuyahoga.

The net result of all the comparisons made by the commissioners, between city and farming districts, is to prove that *the tax upon personal property makes farmers pay from \$4 to \$7, where it makes city residents pay \$1.*

The preposterous nature of returns of personal property for taxation is further illustrated in the report of the Commission, by comparison of the amounts of money on hand or on deposit, thus returned, with the amounts actually held on deposit in banks, within the cities making these returns. The following examples will show the general drift.

Deposits (Partly Estimated).

1892.	Deposits in Bank.	Deposits Taxed.
Cincinnati	\$29,000,000	\$1,300,000
Cleveland.....	63,000,000	1,000,000
Toledo.....	8,120,000	253,000

Here again the farmers come to the front, to bear their share of taxation with a generous hand ; for while five counties, containing all the large cities, held on deposit in banks \$120,000,000, and returned for taxation only \$6,000,000, the remainder of the State, including all the farming districts, having only \$70,000,000 in banks, returned for taxation over \$32,000,000. That is, having 40 per cent. *less*, they were taxed 450 per cent. *more* ! *So the tax on "money" bears upon farmers about ten times as heavily as upon city residents.*

§ 13. **Conclusions of the Commission.** No wonder that the Commission, after giving many more illustrations, concluded by saying : " It is useless to pursue this subject further . . . While in the country counties . . . taxation of intangible property is perhaps feasible, it is in city counties an utter failure. . . . It is confidently believed that no appreciable part of the intangible property existing in the city counties is reached by our method of taxation. *It is the country counties which pay the taxes upon personal property.*"

The Commissioners further say : " It is to be remembered that we have in this State an extremely rigid system." They show that personal property is pursued with more severity and ingenuity in Ohio than in any other State ; and notwithstanding all this, they declare that the system is " an utter failure," and that even with the respect to the spy law of Ohio, " this scheme, like all other attempts to reach intangible property, follows the universal law . . . that the large cities escape, and the country counties feel its burden." Again they say : " The system as it is actually administered results in debauching the moral sense. It is a school of perjury. It sends large amounts of property into hiding. It drives capital in large quantities from the State. . . . The moral sense

of the community is blunted ; its citizens are made familiar with all manner of evasion ; they are taught to lie."

§ 14. **Experience of Missouri.** Lest it should be imagined that the experience of Ohio is peculiar, let us inquire into the experience of Missouri, which is even more decidedly than Ohio an agricultural State. In Missouri there are only four cities of over 15,000 population, and only three of over 25,000. Only four counties show a decided preponderance of town-lot values over farm values; and only two more even the smallest difference that way, and those for one year only.

The four counties in which all cities worthy of the name are situated, are Buchanan, Greene, Jackson, and St. Louis City. These we will call the city counties and the others the rural counties. The following are the official and latest published

Missouri Valuations, 1893 (in Thousands of Dollars).

	Farm Lands.	Town Lots.	Total Real Estate.	Personal Property.
4 city counties. . . .	29,572	320,177	349,749	70,161
101 rural counties.	277,348	67,524	344,872	159,514
Total.	306,920	387,701	694,621	229,675

Here it can be seen at a glance that the four cities, with their adjoining counties, in which farms form much less than one tenth of the whole value of real estate, pay taxes on *more than one half of all the real estate* in Missouri, but on much *less than one third of its personal property*. Personal property in the cities amounts to less than 20 per cent. of their real estate; while in the rural counties it amounts to 46 per cent. of real estate. The farmers of Missouri pay $1\frac{1}{2}$ per cent. *less* taxes on their land than the cities pay, but 127 per cent. *more* on personal property. Even in the eight poorest counties in Missouri, where farm lands are worth from twenty to one hundred times

as much as town lots, personal property is assessed at 40 per cent. of real estate; so that the poorest farmers of the State pay 100 per cent. more taxes on personal property than do the richest cities, in proportion to their real estate.

Let us compare St. Louis City with the rest of the State:

	<i>Missouri Assessments, 1893.</i>		
	Real Estate.	Personalty.	Money, Notes, etc.
St. Louis.	\$259,781,100	\$44,341,110	\$8,449,790
Rest of State. . . .	434,839,557	185,334,285	67,663,576
Total.	\$694,620,657	\$229,675,395	\$76,113,366

These figures show that, while St. Louis pays about 40 per cent. of the taxes on real estate, it pays less than 20 per cent. of the taxes on all personal property, and just 11 per cent. of the taxes on money and credits. The rest of the State pays 70 per cent. more on land than St. Louis does, but 318 per cent. more on personal property in general, and exactly 700 per cent. more on money and credits! Yet Missouri is governed entirely by the farm vote, and it "enjoys" a general property tax as severe and all-reaching as the farmers are able to invent. The only result of their ingenuity is, as usual, to load heavier burdens upon their own shoulders.

§ 15. **The moon-struck theorists.** Figures like these might be collected, not only from Ohio and Missouri, but from every State and country under the sun, where statistics are kept and personal property is taxed. *They* are the moon-struck theorists, who, in defiance of all the facts and all the experience of the world, persist in the vain endeavor to tax personal property and in the absurd assertion that this form of taxation tends to relieve farmers.

Farmers cannot conceal their sheep and oxen, their plows and implements; and they have enormous difficulty in concealing their wealth in any form, because their

affairs are so well known to all their neighbors. If they have any money in bank, all the village knows it. If they have loaned money or sold goods on credit, their debtor is pretty sure to be some one in the immediate neighborhood; and all the circumstances are known to fifty people. The average farmer, when making his returns to the assessor, is afraid to understate his wealth very greatly; because he could hardly look the assessor in the face after doing so, being conscious that, if the assessor does not already know the truth, he can with very little difficulty find it out for himself. But in large towns and cities scarcely any man knows intimately the affairs of his neighbor; and the assessor knows least of all. People are reputed to be worth \$1,000,000, who in reality are not worth \$50,000; and others are reputed to be worth only \$100,000, who in reality are worth \$2,000,000. Even if the amount of any man's wealth is approximately known, none of his neighbors know how that wealth is invested, unless it is put in real estate. City assessors, therefore, have absolutely no means of ascertaining the value of any man's personal property, except by returns from that man himself, or from the corporations with whom he may happen to invest. If an Ohio man makes his principal investments in corporations outside of the State, the assessor is entirely at the mercy of the taxpayers. He can tell any number of lies with impunity. The assessor rarely or never examines his books of account; and if assessors once began to make such an examination, many rich men would cease to keep books of account at all, as it is notorious that they did when the income tax was in existence between 1864 and 1872. All things combine to make it easy for the assessor to reach the farmer's personal property, and difficult for him to reach that of the merchant, banker, or city capitalist.