

A BALANCED TAX PROGRAM FOR OREGON

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CHAPTER I

Introduction

At the general election held on the sixth day of November, 1934, the people of Oregon were asked to vote on a proposed amendment to the state constitution which would have limited the tax rate on property to an ultimate fifteen mills on the dollar, exclusive of debt service. The measure, sponsored by an organization of property owners, created consternation among those groups which were interested in maintaining all branches of the public service at a high point of efficiency. Certainly the proposed amendment was a highly destructive measure, in that its sponsors offered nothing in lieu of the revenue which would have been lost had it passed. The episode, however, and the substantial vote in favor of tax limitation, furnished a significant warning to all citizens interested in the public service and tax-supported activities.

While the dependence on the property tax is not nearly so great as the promoters of the amendment would have us believe, there is ample cause for the complaint that taxes in Oregon are unequally distributed. Property has borne and still does bear too large a share of the cost of government, and if we are to avoid a complete breakdown in the public service the tax structure will have to be dras-

tically revised, and perhaps rebuilt from the bottom. In the last analysis all taxes are paid out of income, and in the past fifteen years a great deal of rural property has yielded very little income. Since the depression deepened a goodly portion of urban property has been in the same predicament--office buildings, apartment houses, dwellings. The high rate of delinquency in property, the small and uncertain yield of the income tax and other supplementary taxes--all contribute to putting the public finances of Oregon in a deplorable condition. It is incumbent upon those who fought and defeated the so-called twenty-mill amendment to render unnecessary any similar proposals in the future by preparing and submitting to the voters of the commonwealth a revenue plan that is adequate, just and balanced.

The writer believes that it will be conceded by all who study Oregon's tax history that at no time has a real concerted and whole-hearted attempt been made to unify the state's fiscal system. We have had committees, commissions, and boards galore--and, by and large, these groups have done excellent work and have made reports that were valuable additions to the literature of taxation. But when the reports have been made to the legislature they have brought disappointingly meager results in the way of remedial legislation, and such changes as have been made have been mere patches imposed upon a dilapidated structure to

meet the immediate requirements. With one exception the committees have been too small to represent adequately the great variety of interests that must be taken into account in formulating a permanent, longtime program in public finance for a modern state. Then, too, they have been creatures of the legislature, have been responsible only to the legislature, rather than to the people at large; they have considered their duty done when their report to the legislature was made--as indeed it was. The commission of 1927 was, so far as number, personnel, and general organization were concerned, eminently fitted to plan and submit a program. But they were not given the task of remaking the state's fiscal system. The implication seems to have been that they, too, were expected to recommend some new patches. And here again the responsibility ended with the report to the legislature.

It ought to be possible to work out a program that would be fair to all interests. Such a plan, however, cannot be promulgated by the legislature, or by any committee appointed by the legislature. This statement implies no criticism of that body, which, by the way, would have to provide the funds in any case. The short biennial periods granted to our lawmakers are crowded to overflowing with numberless tasks clamoring for attention, and when the work has been done, any interest or group of interests displeased with any part of it may

inveke the referendum and undo it all. A universally acceptable tax plan must be "sold" to the public before it is submitted. To proceed otherwise is to waste public resources on useless referendum elections and barren legislative sessions.

There are many reasons for the difficulty that attends any effort to revise our tax system. Sheer inertia, fear of "tampering with the constitution", objection to "new-fangled ideas", interference with group interests--all are among the outstanding ones. In good times when taxes are easily paid no one among the laity, except possibly an impotent minority, takes much interest in it, and proposals for reform fall on deaf ears. When hard times arrive everybody except those directly interested in the public service wants a sudden and drastic reduction.

It is suggested that the task of formulating a tax program be undertaken by the various civic, business, occupational and other interested groups in the state, such as the State Grange, the State Federation of Labor, the State Teachers' Association, the Chamber of Commerce, etc. These groups would appoint a committee somewhat like the one of 1927, or even larger, which, with the assistance and advice of experts, would proceed to the task. This committee, or commission, would work out a satisfactory plan, the members reporting back to their individual or-

ganizations and keeping a finger on the pulse of public opinion. When completed, the plan would be embodied in an act containing also all of the desirable features of our present system, together with a clause repealing all of the old legislation no longer desired---wiping the slate clean and starting anew.

Such a plan would from the beginning be the joint work of all factions, interests, and elements, would, if the committee had done its work properly, be well understood by most of the citizens of the state, and this being the case, should command a majority at the polls.

CHAPTER II

Historical Background

As Seligman says, "to the citizen of the modern state, taxation, however disagreeable it may be, seems perfectly natural. It is difficult to realize that it is essentially a recent growth, and that it marks a comparatively late stage in the development of public revenue;.....".¹ Seligman, probably the outstanding authority on taxation in all its phases, also tells us much of the development of public finance systems from the most primitive times to the present day.

When history began the state did not exist.² Whether we accept the clan theory of the origin of society or that older one of Hobbes that "every man is at war with every other", we find that there are no general or public needs or functions, and therefore no organization such as the state is necessary. As leaders develop---warriors, priests, judges, whatever they may be called---it is still a long time before any common needs arise above that of defense; and each person contributes himself and whatever weapons he may have to that defense. The chief or leader subsists

1. Shifting and Incidence of Taxation, p. 1

2. Ibid.

on the spoils of war.¹

"In the early stages of state life, the forms of property are few, public life was identified with the family and with religious life. There was little call for a definite public expenditure. The chief item was for religious observances, and for these only was there a public treasury. Foundations for the support of religious observances, as seen in Greece and Rome, are extremely old. The temples have their groves, lands, mines, and flocks, receive contributions, and collect payment for their services. Materials for the study of this period are scant. Services of a public character are performed by all citizens as a matter of course. In war they are all warriors; they furnish their own arms. Their reward is the success of their enterprise. By mutual efforts, by the slave labor of conquered peoples, they build their fortresses, cities, ships, roads, and temples. The simplicity of economic life and the absence of a money economy forbid the rise of any proper system of public revenue. Taxes are levied on conquered peoples, but the free citizen is usually exempt. There is practically no division of labor in state matters which would call for a paid public service. Greece

1. Ibid., p. 2

and Rome emerge from these primitive forms with a more complicated system of expenditures, but with relatively little advance in revenue.¹

The above paragraph, quoted from another noted authority on public finance, gives an excellent picture of the fiscal side of government in the ancient world, up to classical times.

Athens, among the Greek states, presents the most interesting example of public expenditures. The cost of the magnificent public buildings of which history tells us, and of which many ruins extant give us further evidence, must have been huge, even though slave labor was utilized in their construction. Plehn says that the per annum expenditures of Athens probably varied from \$410,400 to \$1,026,000, a large part of which was for the relief of the poor and the children of the fallen soldiers.

In republican Rome, the public budget may be said to have begun when the conquered provinces began to pay tribute. To quote again from Plehn: "The items borne by the state were the cost of the priesthood, of buildings and other structures and roads, of the army, of the general administration, and of the distribution of food, of grain

1. Plehn, Introduction to Public Finance, pp. 14 and 15

for the city population, and of donations of money, oil, and wine. The army was first paid in 406 B. C., but for a long time afterward the remuneration amounted to little more than reimbursement for expenses. At first the Emperor was supposed to live from his own private property, but since he had control of all the public revenues, the distinction was difficult to maintain.....¹

A further study of history seems to yield the conclusion that this is the highest development and most complex form reached by public finance for several hundred years. From the fall of the Roman Empire in the West to the beginnings of feudalism there seems to have prevailed the same lack of distinction between public and private revenue as we find in the early pre-state society. Without attempting to go into the nature of feudalism as an institution, we may say that the main, in most instances the sole, source of revenue for the feudal prince was the land, for the use of which he exacted tribute in the form of service or produce or both. Public functions under this system consisted chiefly in maintaining the military establishment and furnishing its leadership, and in administering justice in a rather crude way.

1. Ibid.

Nor was a distinction between the private funds of the ruler and those of the public made clear when the monarchical form of government became the prevailing one. Although by this time a good share of the funds spent for government was derived from taxation, the celebrated dictum of Louis XIV, "I am the State", seems to have carried with it the implication that the state's purse was also the monarch's. As absolute monarchy yielded to more liberal forms of government, the public purse came more and more under the control of the representatives of the tax-paying public.

The early tax history of Oregon reads very much like that of other states in the Union, including the older ones on the Atlantic seaboard. We find the same makeshift ways on the part of the early settlers of trying to meet the necessary common expenses by voluntary contributions, etc. "In the first organic law of the territoryno provision was made for levying a tax, out of deference to the prevailing poverty of the residents, but a voluntary subscription was made to defray the immediate and necessary expenses, and fees were prescribed for recording legal documents, and for certain other public services..... This informal method of meeting the costs

of government was employed for some time afterward, but the legislative committee in 1844....found it desirable to provide for taxation, without, however, assuming the right to confiscate the property of those who refused payment".¹

When the legislative committee found that the voluntary contribution system did not provide a dependable and adequate revenue, and levied the tax referred to in the last preceding paragraph, it inserted in the law, instead of a confiscation penalty, the following shrewd proviso: "Any person refusing to pay tax, as in this act provided, shall have no benefit of the laws of Oregon, and shall be disqualified from voting at any election in this country". As Carey says,² this furnished a strong incentive for the average American to participate in the burdens as well as the benefits of government.

The new organic law of 1845 made provision for a revenue system under the authority of which a territorial tax of one-fourth of one percent was levied. "Local taxes were left to be fixed by the county courts, with the restriction that they should not exceed the territorial tax, with a poll tax of fifty cents on every qualified voter under sixty years of age, and fees for recording certain

1. Carey, History of Oregon, pp. 383 and 384

2. Ibid., p. 391

legal documents were fixed. Taxable property was defined as consisting of town lots and improvements, mills, carriages, clocks and watches, horses, cattle, mules, sheep and hogs".¹

It will thus be seen that, as was natural in a new country, property, and especially real property, bore whatever burden was to be borne for the cost of government. The ironical part of it is that for sixty years more, in the face of advancement in other branches of our political structure, the burden continued in the place where it had first been put, upon the insistence of the people themselves, and even to this day has not been shifted to an extent commensurate with our advanced knowledge of governmental finance.

The first important change in Oregon's tax system came in 1870, when the legislature passed a law taxing bank shares.² This created some new revenue, but did not solve the state's most vexatious problem----the inequalities in assessed valuations throughout the state. so acute did the commonwealth's financial difficulties become that a special session of the legislature in 1885 made provision for the first of a series of special tax

1. ibid., p. 391

2. Warren, Evolution of Oregon's Present Tax System, p. 3

commissions, the work of which will be discussed in chapter III.¹ In 1889 Governor Pennoyer recommended that the exemption for debt allowed real property taxpayers be abolished as a step toward the solution of the revenue problem. He also suggested a tax on incomes above five thousand dollars a year, as well as a tax on foreign corporations doing business in the state. The net result of his recommendations in the next legislative session was a law taxing foreign insurance companies.

Two years later the same chief executive made more drastic recommendations. He asked that the state drop the property tax as a source of revenue, thus achieving the separation of sources which most intelligent students of the subject must come sooner or later. For the state property tax the governor would have substituted a poll tax of two dollars, a graduated tax on incomes above one thousand dollars, and a gross receipts tax on express, telegraph, telephone, and insurance companies doing business in the state. The legislature blandly ignored the executive suggestions, setting up instead a state board of equalization which violated the constitution by raising the valuations in the different parts of the state. To

1. Ibid., p.8

do the board justice, it was sorely handicapped by bad laws, especially by the "equal and uniform" clauses in the state constitution.¹

In 1893 the legislature removed from the assessment laws the provision allowing the deduction of mortgage debts to arrive at the taxable value of property. The same session extended the license taxes on insurance companies to apply to surety companies.² The following session imposed a two per cent tax on insurance premiums, which was to be in lieu of the companies' property tax and in addition to the license tax already existing. The special session of 1898 abolished the state board of equalization set up seven years earlier. The ineffectiveness of the body under the existing constitutional and statutory limitations upon its powers had been amply demonstrated.³

An important act of the 1899 session was the enactment of a law requiring the counties to apply the first tax money received to the payment of the state's share. Whether for good or otherwise, this made the state a preferred stockholder, as it were, in the tax money. During the depression of 1930-34 there was not a little grum-

1. Ibid., p. 8
2. Ibid., p. 10
3. Ibid., p. 15

bling by the counties and other subdivisions against this law, but it is still in effect.

The fiscal affairs of the commonwealth were in no better shape when the legislature of 1901 opened its deliberations. The secretary of state asserted that the difficulty was caused by the inequalities and inequities in the making of assessments and added that the property tax could not yield all of the required revenue. The plan of Governor Geer to assess counties according to wealth and population broke on the "equal and uniform" clause in the constitution and never went into effect. Geer's successor, Governor Chamberlain, also hearing the loud wails from the office of the secretary of state, had better success. The legislative assembly of 1903 passed a corporation tax and inheritance tax.

The three-member commission set up by the legislature of 1905 is discussed more fully in chapter III. In June, 1906, the people passed a gross earnings tax which later was declared by the supreme court to have been repealed by implication in the tax code changes of 1907-1909.

At this point it is permissible to digress for a moment to call attention to a piece of tax pioneering which attracted the favorable attention of noted experts in public finance to this state.¹ Oregon was the first state to

1. Seligman, Essays in Taxation, pp. 634-635

adopt in principle the method whereby state expenditures are to be met by levies on the counties, not on the basis of local valuations, but on the basis of expenditures. That this fair and up-to-date plan was never carried out was due to a series of fortuitous circumstances and events which in the next two or three years upset the state's whole financial system.¹ For this, as well as for other features of its work, the commission of 1905--6 deserves a great deal of credit.

The 1907 meeting of the lawmakers of the commonwealth brought forth many changes in the tax laws. The solons repealed the poll tax, reorganized the county boards of equalization, and amended both the corporation organization and license tax laws and the laws relating to the taxing of bank shares. In June, 1908, an attempt to fix the single tax on the state's fiscal system met defeat at the hands of the voters. The legislative session of the following winter referred to the people a constitutional amendment repealing the "equal and uniform" feature of the organic law. The amendment was defeated in the following election, at which the people also adopted an amendment declaring "no limit" on taxation when voted by the people, and at the same time tying the hands of the legislature in tax matters by strip-

1. Ibid., p. 363

ping it of the power to levy taxes and grant exemptions.¹ One thing the legislature of 1909 should be remembered for: It created a State Board of Tax Commissioners, the name of which was in 1913 changed to State Tax Commission. It was for a number of years an ex officio body, imperfect in its functioning, but it represented a step in advance in tax administration which will, it is hoped, help to bring order out of Oregon's chaotic fiscal system.

The years 1915 and 1916 saw the inauguration of two features which since that time have played a prominent part in Oregon's public finance. One, about the merits of which tax experts have grave doubts, is the so-called six per cent limitation amendment to the state constitution. The other, of undoubted value to the state's taxpayers, is the one requiring counties, cities, and other tax-spending and levying units to set up budgets before making levies, and to stay within those budgets. The most troublesome single feature of the commonwealth's tax system--the "equal and uniform" clause in the constitution--was finally removed at a special election in 1917. The same year saw the exemptions codified and the institution of a tax supervision and conservation commission to sit in judgment upon the budgets in the state's wealthiest and

1. Warren, Evolution of Oregon's Present State Tax System, p. 3

most populous county.¹

The special election of 1919 added five new tax measures to the tax code of the state, and the one in 1920 added five more, among the most important of which were the millage tax for the elementary schools and an added levy for the institutions of higher learning. The legislature of 1921 set up another special commission to study and investigate the tax situation. This group will be dealt with in chapter III. An income tax passed by the 1923 legislative session and approved by the people, was repealed at the general election in the following year, causing considerable embarrassment to those charge with the administration of the state's fiscal affairs. A tobacco tax enacted by the 1925 legislature met the same fate at the hands of the voters in 1926. The 1929 legislature displaced the exofficio tax commission with a permanent one of three members. The same session passed a corporation excise tax, a personal income tax, and a five per cent tax on intangibles, promptly ruled out by the courts. The next session passed an eight per cent intangibles tax and raised the corporation rate to eight per cent. The 1933 session raised the rates in the income tax and lowered exemptions in both it and the intangibles. Changes were also made in the collection of taxes and in the gift tax.

1. Ibid., p. 51

CHAPTER III

The Work of Special Committees, Boards, and Commissions

This chapter is in a sense a continuation of the preceding one; or perhaps one should say, supplementary to it. Its purpose is to present a brief survey of the work of those groups, official and otherwise, that have participated in the work that has been done throughout the years toward solving a problem which is, in the last analysis, unsolvable; the raising of governmental revenue in such a manner as to please everybody concerned and leave all tax-spending agencies with ample funds for all reasonable purposes. The chapter is in no sense complete. To do justice to the work of all these groups would require a volume of several hundred pages. As already stated, it is intended to supplement the preceding chapter in presenting a very brief outline of Oregon's tax history in order to provide a background for the further study of the immediate practical problem that faces the state and its citizens. Such being our purpose, all minor groups, and perhaps even some major ones, where they are remote in time and not closely related to current problems, must necessarily be left out.

The first commission to deal with Oregon's tax situation of which we find any record was that set up by the legislative assembly in 1885. It consisted of seven members, and met for organization on January 4, 1886.¹ One of the first statements in the report which made its appearance six weeks later is an expression of dissatisfaction with the manner in which the legislature is hampered in its handling of the state's finances by constitutional inhibitions.² Briefly, the recommendations of the commission were as follows:

1. That all property should be assessed "at its full and true value in money".

2. That county boards of equalization then existing should be continued and a state board of equalization should be set up to adjust values among counties.

3. That mortgages on land should not be deducted in making assessments, but the mortgagor and mortgagee might agree upon the apportionment of the tax between them.

4. That all insurance, telephone, express, sleeping car, electric light, plank road, turnpike, wagon road and bridge companies should be taxed three per cent on their gross earnings.

5. That all railroad companies be taxed two per cent on their gross earnings.

The report of the commission was adjudged an excellent one by all authorities, and the group highly

1. Report of the Commission, Assessment and Taxation, p. 2

2. Ibid.

commended for its work, but it resulted in no action being taken by the legislature.

The next group of importance was a similar commission, this time of three members, provided for by the legislature of 1905. The report of this body, made June 30, 1906, was a thorough-going one, and voluminous, covering, with appendix and index, 332 closely printed pages. It was a scholarly document, going at some length into the legal phases of certain kinds of taxes, citing court decisions and other authorities, as well as huge masses of statistics. The work was very ably done. That it resulted in comparatively little improvement of the state's tax situation was not the fault of the commission, nor, primarily, of the legislature, but was brought about by an inundation of initiative measures, constitutional amendments, and court decisions which threw the whole matter into confusion over a period of several years.

Following is a list of the commission's recommendations:

1. A constitutional amendment to allow classification of property for taxation purposes.
2. A revision of the assessment laws so as to avoid under-assessment.
3. A clarification of the laws relating to the

assessment of bank shares and bank capital.

4. The creation of a permanent state board of tax commissioners consisting of the governor, secretary of state, state treasurer, and two appointive members. This board to enforce the assessment of all property at full value.

5. The reorganization of all county boards of equalization.

6. The alteration of all laws relating to taxation so as to fit the program as planned.

7. Diversion to the state of ten per cent of the local license tax on liquor.

8. Reduction of inheritance tax exemptions.

9. The alteration of corporation tax laws so as to do justice to the smaller corporations.

The work of this commission was the first attempt to really reorganize the state's tax system, and eventually resulted in much good.

The legislative session of 1921 brought forth another seven-member commission for the study of our tax set-up. The procedure of this board differed in one significant respect from that of its predecessors: It gave recognition to academic specialists by appointing as advisers Dr. James H. Gilbert of the University of Oregon and Dr. Hector Macpherson of Oregon Agricultural College. The report of the "Committee on Tax Investigation of Oregon" is probably one of the most valuable of its kind in the

history of the state. Eighteen months of intensive work preceded the transmittal of this document, December 16, 1922. According to the introduction to the report, the committee held hearings at five different places in the state, besides those at its office in Portland. To quote from the introduction:¹

".....From sources without the state it accumulated for study and guidance reports issued by special tax investigation commissions, the revenue laws of the several states, the latest reports of permanently established tax commissions, the reports, bulletins, and proceedings of the National Tax Association; reports of the internal revenue department, the United States treasury, and of the congressional hearings on revenue; the internal revenue laws; the federal income tax service of the Commerce Clearing House; the works of the leading economists, including those of Smith, Mill, Bullock, Seligman, and Hunter; the United States census reports, the publications of business organizations on the sales tax, general property tax, income tax, and other forms of taxation; press articles and comments; federal reports on

1. Report of the Committee on Tax Investigation, p. 5

irrigation, water power, and mining; the income tax laws of the states that have enacted same; and in addition to this material collected, the reports issued by the several state departments of Oregon.

The committee also accumulated a large amount of information not found in printed publications, an important part of which was statistics from political subdivisions of the state on bonded indebtedness, licenses, fines, fees, permits, information on statutory and discretionary tax levies and receipts by courts of justice. It inquired into the methods adopted by the county assessors of the state in the valuating of property, into the salaries paid by the public service corporations, into the gross income, net income, and taxes paid by the foreign corporations....."

The committee performed invaluable service by pointing out the gaping discrepancies where a large part of the state's hugely increased intangible wealth was escaping taxation where real estate and other forms of visible property could not elude the tax-gatherer.¹ This has since been the basis for legislation which, while it has not brought about perfection, has materially improved things.

1. Ibid., pp. 10 and 11

The legislature of 1925 authorized by joint resolution a committee since known as the "Special Tax Investigation Committee", which consisted of the governor, secretary of state, state treasurer, attorney general, the tax commissioner, and three others. This committee, too made use of the services of Dr. Gilbert of the University of Oregon, who prepared a digest of the laws of the several states dealing with the taxation of intangibles. A subcommittee of four visited the state of California, spending a week, mostly in conference with public finance officials and fiscal officers of public service corporations at San Francisco and Sacramento. This subcommittee gathered some very interesting and pertinent facts about the operation of certain features of the tax system of California, especially the taxation of corporate excess, intangibles, and gross earnings. The report of the general committee, rendered October 1, 1926, made recommendations as follows:

1. The granting of additional powers to county assessors.
2. Limitation of millage levies and bond issues.
3. Changing the assessment date from March 1 to January 1 of each year.
4. Revision of the salaries of county assessors.
5. Taxation of intangibles at a flat rate of 5 per cent.

6. Imposition of a state tax of 1.6 per cent on corporate excess.

The most ambitious study of our tax system ever undertaken was that ordered by the legislature of 1927, in a resolution ordering the creation of the Oregon Property Tax Relief Commission. The personnel of this commission consisted of thirty-five citizens from all parts of the state and representing every conceivable interest. The work was divided among four subcommittees, each in charge of the investigation of some particular part of the state's fiscal problem. Each of these subcommittees rendered a full and comprehensive report of its findings and recommendations. The commission as a whole reported to the legislature January 1, 1929. Briefly, the commission made recommendations as follows:¹

1. Give the state tax commission full and entire charge of the supervision and administration of the tax and assessment laws of the state.

2. Create a full-time, paid commission of three or more members, to replace the ex officio commission then in use.

3. Substitute indirect taxes for the state property tax.

4. Improve county government throughout the state, and take steps to control bond issues and tax levies.

1. Report, Property Tax Relief Commission, pp. 13--16

5. Put an excise tax on banks and corporations.

6. Adopt a personal income tax.

The work of this commission is conceded to have been most productive of practical legislative results, probably because of the variety of interests represented, and the large personnel, which made intensive work through sub-committees possible. One suspects, however, that the greatest single factor is the fact that the commission had the accumulated facts and experience of previous similar groups at its command.

The thirty-sixth legislative assembly in 1931 by joint resolution set up a Committee on Assessment and Taxation of Municipal Utilities. Dean J. H. Gilbert of the University of Oregon was made secretary. According to the committee's report "it was charged with a two-fold task of reporting and recommending on the advisability of assessing and taxing municipally owned utilities, and also such legislation 'as in its judgment may be needful for the proper management, financing, and safeguarding of public interests in all municipal utilities in the state of Oregon'".¹

1. Report of Committee, p. 3

The report of the committee is a booklet of much useful information on utilities in general and municipal utilities in particular. It recommended strongly against the assessment and taxation of publicly owned utilities and also reached the conclusion that there was no reason for subjecting municipal utilities to the same regulation that privately owned plants must submit to .

So much for the official groups set up under the direct authority of the legislature. In addition to these, sundry non-official groups have from time to time taken sufficient part in taxation study and planning to gain state-wide recognition. Some of them have limited their activities to promoting or opposing certain particular tax measures, rather than undertaking an extended study of the tax situation as a whole. Such organizations are the Portland Taxpayers' League and the Eastside Taxpayers' League of Portland. Among those making a more or less continuous study of the tax problem and submitting proposals and suggestions now and then are such groups as the Marion County Taxpayers' Association of Salem, the Oregon State Grange, and the Oregon State Federation of Labor. There is one agency, however, which has within the past few months completed a piece of work which should be specially mentioned.

The Committee on Public Finance and Taxation, Division of Public Welfare, Oregon Planning Council, issued a report December 29, 1934, which, while in no sense complete or final, gives an excellent survey of the state's fiscal affairs.

Still another source of tax and public finance information in regard to Oregon is found in the files of the Oregon Voter, edited by C. C. Chapman. The back numbers of this little weekly should not be overlooked by any one studying the financial affairs of the state and its subdivisions.

A recent governor of Oregon is quoted as saying that the activities of the various tax commissions, committees and boards have been rather barren, inasmuch as they have resulted in very little remedial legislation. This, however, hardly expresses a fair view of the work of these groups, for it has served to educate the tax-paying public, and has helped all of us to think and vote on questions of fiscal policy in accordance with modern trends.

CHAPTER IV

Canons of Taxation

This chapter will deal briefly with the principles underlying taxation, as these principles, or canons, have been worked out by economists throughout the decades, from Adam Smith down to the present time.

One could devote a volume to a discussion of the various doctrines of taxation expounded by the different schools of thought on the subject, but space in the present paper will not permit a very extended discourse. From the standpoint of the modern statesman framing a tax system, these doctrines resolve themselves into one: Revenue is necessary to the functioning of the various departments of government; that revenue must come from those who live under the government and enjoy its blessings. It must be sufficient to enable the government to carry on its work. And in modern times an effort is made, at least in the more enlightened nations, to provide this income with a minimum of pain and a maximum of justice to all of those who contribute to it.

The noted American economist, Professor Henry Carter Adams, listed three theoretical definitions of a tax.¹

1. Science of Finance, pp. 298--301.

The first of these is the so-called purchase theory of taxation, which conceives of a tax as a price paid by the citizen to the state for services rendered. Obviously this implies, as Professor Adams says, that the state is something separate and distinct from the body of its citizens, a doctrine not at all consistent with the modern conception of the state.

The second is the benefit theory, which embodies the idea that inasmuch as the citizen benefits from the activities of the state he should pay on account of that benefit and in proportion to it. Like the purchase theory, it is based upon an extremely individualistic conception of the relationship between the state and its citizens. The greatest weakness of this theory becomes evident when one considers the difficulties which would arise were it attempted to determine the cost of the specific services or to measure the relative benefit of government to citizens.¹ This compels recourse to the third, or contributory theory, which implies the solidarity of the social or common interest. The government ministers to wants common to all of us, wants which cannot be segregated or assigned to individuals or classes. This being the case, citizens should contrib-

1. Ibid., p. 301.

ute in accordance with their ability.

Many economists believe that the power of taxation should be used, not only to raise revenue for the payment of government expenses, but to effect a certain degree of redistribution of wealth and to correct social inequalities, insofar as it is expedient and wise to correct them in this manner. The foremost advocate of this view is the German economist Wagner, who promulgated the so-called socio-political doctrine of taxation, a socialistic point of view, which, while not accepted by all students of social and economic problems is finding considerable expression in the progressive taxation of incomes. The notion that taxation is a powerful tool which may be used to mitigate many of the evils of our social order is spreading more and more, and no one having to do with the construction of a tax plan can afford to ignore it.

Adam Smith, writing before 1776, gives four attributes which should be possessed by any good tax system. They are: (1) the tax should be levied in accordance with the citizen's ability to pay; (2) it should be certain; (3) it should be levied in such a way as to make it most convenient for the citizen to pay; and (4) it should be economical in its administration.¹ Among modern author-

1. Wealth of Nations, Everyman's Edition, pp. 307--9.

ities, Professor Bastable, the British expert on public finance, believes that a tax should be productive, economical, justly distributed, elastic, certain, and convenient. Professor Harley L. Lutz, well-known American economist specializing on taxation, puts down the requisites of a good tax system as fiscal adequacy, economy, equity, elasticity, simplicity, diversity, and flexibility.¹ Professor E. R. A. Seligman of Columbia University, probably the outstanding authority on taxation, has a more elaborate list of requisites for a sound tax system, which we here reproduce:

(a) Fiscal

1. adequacy
2. elasticity

(b) Administrative

1. certainty
2. convenience
3. economy

(c) Economic

1. innocuity
2. efficiency

(d) Ethical

1. uniformity or equality
2. universality

Of the two principles under the first, or fiscal, group, adequacy has reference to the relative amount which the tax can produce. Unless a tax can bring into the

1. Public Finance, Chapter XV

public treasury the revenue needed in can scarcely be called successful. Nor can it be considered a good plan unless it is elastic enough to respond to changes in economic conditions. These two principles of adequacy and elasticity do not seem to have been considered by Adam Smith, probably because at the time he wrote governmental functions had not yet become so numerous, and the science of public finance was as yet in its infancy.

Seligman's next set of principles embraces, it will be noted, all of Adam Smith's but one. Unless a tax is fairly certain in its effects and in the amount of revenue it yields, it cannot be a good tax either from the standpoint of the state itself or from that of the taxpayer. The principle of convenience includes the question of how, when, where, and under what conditions the tax is to be paid. Often a tax which would work well in other respects has failed because the conditions surrounding its levy and collection have been such as to arouse the opposition of those who were to pay the tax. The principle of economy touches upon the cost of collection; if this cost is so great as to absorb too large a share of the receipts from the tax, leaving relatively little for the public treasury, the tax cannot be pronounced successful.

Under the third, or economic, set of principles,

Seligman has innocuity and efficiency. Innocuity, or harmlessness, is a most desirable attribute of a tax. Some taxes are much more destructive in their effect than others. This destructiveness may be economic, as when a tax has the effect of retarding the growth of industry, or it may be social, as is illustrated by the tax on windows and doors in France.-- By efficiency, we mean the capacity of the tax to bring about the effect desired. The casual reader might say that this is already included under adequacy; this would indeed be a fair interpretation were the objective of a tax always purely fiscal. Such, however, is not the case; sometimes taxes are imposed for non-fiscal purposes.

Under the fourth and last group, Seligman lists two principles which are now recognized by all economists as very important. It will be noted that none of the three modern authorities has said anything about ability in his list of requisites for a good tax. Why this is the case will be made clear when we come to find what Seligman, for instance, has to say about these last two, or ethical, principles. Absolute numerical equality is not what is meant, but relative or proportional equality. To define this equality constitutes one of the knottiest problems in

taxation; whether, for instance, taxes should be progressive or merely proportional, whether earned income should be taxed at the same rate as funded income, etc. This is the center around which revolves much of the controversy over modern taxation, and to enter upon it here would lead us into endless and devious paths. It may, however, be profitable to touch upon the question of "equality of sacrifice" to the extent of quoting from Seligman's excellent exposition in the Americana:¹

".....Sacrifice has to do with the phenomenon of parting with one's wealth. It involves the question of how much is left for immediate consumption after the tax is paid.....A man's ability to pay tax, therefore, must be considered, not only from the standpoint of consumption, but from that of production. In other words, the two elements of faculty are privilege and sacrifice: the easier it is for a man to make his money, the more ability he has to pay taxes; the harder it is for a man to be deprived of his money, the less ability he has to pay taxes....."

The final principle is that of universality, which, to quote again from Seligman, means, "among other things,

1. Volume 26, Article on "Taxation".

that all people should bear their burden, that everyone should be taxed, and that no one, in contradistinction from his neighbor, should be taxed more than once. The modern world permits exemption from taxation, but modern exemptions are different from those of former times. The medieval exemptions were class exemptions, and were, therefore, reprehensible. Modern exemptions rest upon presumed lack of ability to pay, or upon considerations of public policy. They are permitted, not primarily for the benefit of the individual, but for the benefit of the community".

In practice, no perfect tax system will ever be put into effect. When all theoretical defects and faults have been removed, there will remain the human element with all its varying fortunes and vicissitudes. At best, the perfect tax system is an ideal, in striving toward which we shall attain some degree of social and economic justice and equality of the burden of government.

CHAPTER V

Oregon's Present Tax System

The tax system of Oregon consists of twenty-two different taxes. This sounds like diversification enough, but four of the taxes independently labeled are property taxes levied for specific benefits. When this fact is considered, the number is reduced to eighteen. Even this might provide sufficient, were the supplementary taxes (taxes other than those on property) productive of enough revenue to balance the budgets of the state and its subdivisions without the excessive burden on property owners. The possession of property, taken by itself, is not a safe test of tax-paying ability.

If we include in the property tax group the reforestation, irrigation and drainage, fire patrol, and fire marshal levies, Oregon's taxes may be divided into five fairly distinct classes: Taxes on property, taxes on corporations and business, inheritance and gift taxes, motor vehicle taxes, and income taxes. The first, taxes on property, are levied by all agencies from the state down, each according to the requirements of its budget, and subject, of course to constitutional and statutory restric-

tions and limitations. All property except that of public utilities is assessed by the county assessors, whose work is subject to review by the state tax commission. All property of the public utilities is assessed by the state tax commission directly, and apportioned to the assessment rolls of the several counties. All property taxes are collected by the county sheriff.

The second class, corporation and business taxes, includes the corporation organization tax, the license tax on foreign and domestic corporations, the declaration of foreign corporations tax, the license tax on security dealers, gross revenues tax on public utilities, the privilege tax on common motor carriers, the privilege tax on insurance companies, and the privilege tax on real estate brokers. The total yield of these taxes for 1933, the last year for which complete figures are available, was \$1,447,415.90.

The third class, inheritance and gift taxes, brought \$417,340.81 into the state treasury during the year under consideration. In 1929, before the business depression played havoc with property values, this tax yielded \$1,000,311.69, which shows its possibilities in normal times.

The fourth group is the most fruitful, next to the property taxes. It includes registration taxes on motor

vehicles, motor fuel tax, and license fees paid by chauffeurs and private operators. The receipts are practically all earmarked for the use of the state highway commission and for the enforcement of state traffic laws. The combined yield of this group in 1933 was \$9,430,007.42.

The fifth and last class, made up of the corporation excise tax, the personal income tax, and the tax on intangibles, is the one from which in prosperous times one would expect much. The yield of this group in 1933 was \$1,415,677.79, a drop of \$877,393.90, or about 60 per cent from that of the previous year. Such figures as are available for 1934 show a fair increase over this low, reflecting improving business conditions.

It is reasonable to expect that returning prosperity will increase substantially the return from all of the taxes in the last four classes, but it will also increase the cost of government and public service, and property will bear relatively as great a burden as before, unless new sources of revenue can be developed. Greater diversity in income sources must be promoted. Property yielding an income or having substantial sale value should pay taxes accordingly. As the state's resources are developed and population increases, some method should be devised for the appropriation by the state of a considerable portion

of the unearned increment. This angle will be given further consideration in chapter VI.

A committee engaged at the present time in the study of Oregon's public finances¹ asserts that property furnishes only 20 to 25 per cent of our state income. Yet in the year 1933 property paid 67.3 per cent of the taxes. The committee just quoted is also authority for the statement that real estate, even when the expenses of all grades of government are considered, pays nearly one-half of the taxes.² It does not require a wise and learned judge to perceive that the burden is unfairly distributed.

In 1933 the total income from taxes of the state and its subdivisions amounted to \$54,970,247.41. Of this, \$41,032,618.58, or approximately 74 per cent, was from ad valorem taxes on property. Of the remaining \$13,937,628.83, the largest share, \$9,430,007.42, came from a taxpayer, who, like the real estate owner, cannot escape--the motorist and the truck owner, and was reserved, mostly, for the use of the highway commission. Which leaves \$4,507,621.41 to be accounted for in the other forms of taxation. But wait! The tax commission's statement also shows four other taxes

1. Supra, pp. 28 and 29

2. Report of the Committee on Public Finance and Taxation, Division of Public Welfare, Oregon Planning Council, p. 7

which, while they are levied for specific benefits, and therefore are justifiable, are, nevertheless, levied against property. These are the levies for reforestation, irrigation and drainage, fire patrol, and fire marshal. The total of these is \$1,227,186.91, which, when deducted, leaves \$3,280,434.50. This, about six per cent of the whole, is the entire contribution of the other taxes ---corporation, income, intangibles, and what not--to the coffers of the state, counties, cities, and school districts. The rest is furnished by two classes of taxpayers, the property owner and the motorist.

CHAPTER VI

Suggestions for Effecting Substantial Savings in the Cost of Government in Oregon

Students of government have long been aware of a great deal of waste and lost motion in the administrative machinery of our states. No discourse on taxation would be complete which did not take into consideration this, one of the reasons for the rising costs of government. Executive officers of our states, counties, and cities are more and more beginning to realize, as they pare the budgets to fit the taxpayer's purse, that fiscal problems cannot be solved by the constant levying of new taxes or increases in the old ones, while they ignore the numerous drains on the public treasury caused by the retention of portions of administrative machinery which, like Topsy, have grown up as the need for new functions arose. These offices, bureaus, and departments served their purposes in a day when government was a simpler, and incidentally, a cheaper, institution to maintain.

The success of the short ballot system, or, rather, the movement for the short ballot, must await the time when the Oregon public has been educated to appreciate the economies and other advantages which will accrue from

the centering of responsibility in a few elective officials as compared with the present decentralized system. In the few states where the cabinet, commission, or directorate plan has been tried whole-heartedly and given a fair chance, it has brought about increased efficiency in the exercise of governmental functions and reduced costs to an appreciable degree. In others, where it has been adopted in a rather hybrid form and subjected to the manipulations of its enemies, the machine politicians, it has not lived up to the expectations held for it.

Some years ago, an Oregon group appointed to study this question and submit a plan, presented figures more or less detailed showing savings possible in the cost of maintaining our state government running as high as \$842,527.98 on the basis of the 1917--18 state budget. This estimate made due allowance for the growth of functions, and to be conservative the commission made the final definite statement that "an annual saving of \$500,000 might reasonably be expected".¹ This did not take into consideration the possible reduction in clerical help. The saving would be possible because the cabinet system "puts and end to the indefinite expansion of costly state

1. Report of the Joint Commission on Administrative Reorganization to the 35th Legislative Assembly, p. 39.

administrative agencies,.....the state activities are more efficiently performed through concentration of responsibility, better utilization of time;.....more compact, no chance for the spoils system".¹ The plan under consideration provided for the consolidation of the state's 107 offices, bureaus, divisions, and commissions into nine departments, each with a director at the head of it. More specifically, the savings would be brought about largely through the reduction in the number of men drawing salaries in the higher brackets, in the cost of space occupied, cost of stationery and printing, through reduction in the amount of equipment needed, and by means of a more careful selection of employees on the basis of fitness for their work.

Another suggestion worthy of consideration is that of dispensing with the office of county sheriff, distributing the functions now exercised by that officer among the county clerk, assessor, and state police. If reverence for the ancient office caused the public to be loath to abolish it, some office less hallowed by age and tradition could be eliminated and the title transferred to it. The move would save not only the salary of the sher-

1. Ibid.

iff in each county, but also some portion of the general office expense, or overhead. Probably \$75,000 to \$90,000 would be a conservative estimate of the saving which could be made by this means.

There can be no good reason for continuing to have the responsibility for the commonwealth's roads divided between the state highway commission and the various county road officials. The increasing returns from the gasoline tax should, from now on, provide adequate funds to enable the state to accept responsibility for so-called county roads as well as for the major highways. At any rate, should this branch of the state's activities need additional funds, they could be more economically administered by the highway commission than by the counties. The move should not only effect an appreciable saving in salaries, but ought to make possible other economies in road work, as, for instance, in the buying of materials.

A source of savings which the writer does not recall hearing of lies in a more careful supervision by the state of the activities of the minor subdivisions leading to bond issues and tax levies. A good deal of waste is incurred by school districts and other units through the undertaking of projects without expert and disinterested guidance in the formation of their plans. An instance

coming to mind is that of a school district which made arrangements to build a playshed, got in touch with a local contractor, and issued bonds to the amount of \$5000. When completed, the structure proved unfitted for the purpose unless a considerable additional sum was put into it, and it is today a source of vexation and worry to the directors. Another example is that of a water district proceeding, without competent engineering advice, to the laying of pipes throughout the district which within a few years had to be replaced at great cost. This would seem to be a field in which the state planning group could be employed to good advantage.

The most outstanding means of saving, however, probably with the added advantage of increased efficiency, is the one which a large proportion of the rural population is most likely to resist--the consolidation of the state's 2200-odd school districts into larger administrative areas, either by the county unit system or by some other workable scheme. The one-room rural district school, still retained by Oregon and many other states, is an expensive anachronism. Consolidation would make a saving through better utilization of teachers, more efficient administration, large scale buying of supplies, centralization of records and clerical service, expert planning of build-

ing programs, etc. Dr. C. L. Huffaker, in his appendix to the report of the recent Education Commission, speaking from the standpoint of teacher utilization alone, estimates a possible saving of \$750,000.¹ The Committee on Public Finance and Taxation, Division of Public Welfare, Oregon Planning Council, estimated a possible saving under the county unit system of \$4,000,000 annually "without impairing in any important way the educational advantages open to our children. Indeed, many educational authorities believe that this financial saving could be realized while at the same time educational opportunities could be diversified and enriched?"²

Altogether, it is not unreasonable to say that savings in government costs running anywhere from \$2,500,000 to \$4,000,000 could be brought about by the means suggested in this chapter. Most of them have been before the Oregon public in the press and otherwise. The last mentioned one, the one with the greatest possibilities, was defeated in the 1935 legislature by the very people it was designed to help. Surely, to cut this sum from the operating costs of our government would be a far more worthwhile achievement than to find new things to tax for an equivalent amount.

1. Educational Commission Report, p. 43.

2. Report, Committee on Public Finance and Taxation, p. 30.

CHAPTER VII

The General Plan

It must be accepted as an established truth that all taxes are, in the last analysis, paid out of income, and that income, rather than the ownership of property, should be the test of tax-paying ability. Our knowledge of taxation, and the development of our tax machinery have not yet reached that degree of refinement where we can completely disregard the ownership of property as presumptive evidence of tax-paying ability, however.

Whether or not it is true, we assume that a person able to have extensive property holdings has a substantial income. In most cases the assumption holds true, and in prosperous times the person who is "property poor" is an exception. Indeed, there is a question whether or not his predicament is due to mismanagement of his personal affairs for which society (the state) is not responsible, and which it must therefore disregard. For these reasons, it is likely that the property tax will remain as an important factor in our fiscal system. Our efforts at tax reform must be directed toward the establishment of a

more equitable proportion among the various sources embraced in our tax system. At the present time, disproportion is most clearly manifest in the property tax, as has, it is hoped, been shown in the preceding chapter.

While some eminent authorities question the wisdom of a complete separation of sources between the state and its subdivisions, there are many who believe that the property tax should be dropped from the state's schedule of incomes and left entirely to the local units. While notable reforms have been achieved in the assessment and levy of the property tax, it is not entirely free from defects in its administration. There are cogent reasons for believing that the powers of the state tax commission should be further increased. Above all, it should be given the power to appoint all county assessors, to hold office during good behavior and proper performance of duties. This would remove these key-men from local political influences and insure to the public a corps of appraising officers qualified by training and experience for the work they perform. The commission should be empowered also to send specially qualified engineers and appraisers into any local district for the purpose of checking on the values of industrial concerns which is of such a nature as to require specialized knowledge. If the commission possessed these powers,

much of the argument for the separation of sources would lose its force. It should also be given a high degree of control over local budgets, and a thoroughly adequate budget for its own use should be written into the law.

Indirect taxes should be resorted to so far as is consistent with justice and equity in the distribution of the burden. Indirect taxes are usually less likely to arouse opposition because they are, as a rule, paid a little at a time, and frequently without the contributor's being conscious of it.¹ The loss is not felt unless the tax is excessive. To be sure, the political press and the demagogue can, and often do, make issues of certain ones, but they do not get the hearing they get when a direct tax is involved. There are, to be sure, exceptions to this rule.

Any projected tax program should conform to the canons of taxation established throughout the decades by patient and conscientious scholars. This is a compelling reason for having one or more trained economists "sit in" as advisers to any tax-planning group.

It is, of course, intended in the present plan to have all taxes except the property tax collected by the

1. Seligman, Essays in Taxation, p. 3.

state, and any portion above the state's legal share distributed to the counties on the basis of expenditures, which would be a safe one if the state tax commission exercises a fair degree of control over local budgets.

Each tax in the following plan will be considered by itself. The total budget for the state and its subdivisions is set at \$65,000,000, which is about \$600,000 less than that of the year 1929, and more than \$10,000,000 above that for 1933. This gives room for expansion back to a "prosperity basis". It is also claimed for the plan that as normal conditions return the yield of the supplementary taxes, with the possible exception of the income and intangibles taxes, will expand beyond the very conservative figures shown in the estimates, thus reducing property's burden much below that shown. Incidentally, the figures issued by the tax commission, upon which some of these estimates of yield are based, do not show the total cost of government functions in the state, for they do not give the amount of revenue secured by the municipalities through the exploitation of the business and occupation taxes and various license imposts, fines, etc.

In the following schedule, taxes now a part of the state system will be considered first, with estimates of yield, changes suggested to fit into the new plan, etc. The only changes to be proposed in existing taxes will be those in the personal income and intangibles taxes.

Following this will come the new taxes which it is proposed to add to the system, with estimates of yield, discussion of probable constitutional difficulties, etc.

TAXES NOW IN FORCE

CORPORATION ORGANIZATION TAX.

This is a minor source of revenue. The object is regulatory rather than fiscal. While the tax yielded only \$10,120 in 1933, it produced \$35,245 in the boom year 1929. \$20,000 should be a conservative estimate of yield for a normal year.

DECLARATION OF FOREIGN CORPORATIONS TAX

This, too, is a regulatory tax, primarily. Yield in 1933, \$3400; in 1929, \$8055. Estimate in this plan, \$5000.

LICENSE TAX, FOREIGN AND DOMESTIC CORPORATIONS

This, a sort of privilege tax, is a fairly substantial revenue producer, but in view of the other taxes levied against corporate business should be left as it is. Yield in 1933, \$297,358.18; in 1929, \$376,974.94. Estimated yield in plan, \$350,000.

LICENSE TAX ON SECURITY DEALERS

The purpose of this tax is largely regulatory, but it probably yields a surplus above the cost of administration. In 1933 it produced only \$11,171.82, but its best year was 1930, with \$35,800.48. The yield in this plan is put at \$20,000.

GROSS REVENUE TAX ON PUBLIC UTILITIES

This tax brought in \$84,366.80 in 1933, its banner year. Returning prosperity should increase this substantially, so the yield is set in the plan at \$90,000.

PRIVILEGE TAX ON COMMON MOTOR CARRIERS

This is a good revenue producer. Its highest point for which figures are available was \$457,751.18 in 1930. Estimate in plan, \$400,000.

REGISTRATION TAX ON MOTOR VEHICLES

The yield of this tax on the new basis in 1933 was \$1,903,974.78. Under more prosperous conditions it is fair to assume that it would be considerably above this. Estimated yield in the plan, \$2,000,000.

LICENSE TAXES, CHAUFFEURS AND PRIVATE OPERATORS.

The combined yield of these two in 1933 was \$243,789.50. Cost of administration cannot be a very large portion of this. Estimated combined yield in the present plan, \$250,000.

FUEL TAX, MOTOR VEHICLES

This is the state's prime source of revenue, next to the property tax. Since it yielded \$7,282,243.14 in 1933, at the bottom of the depression, the estimate in the plan, \$7,500,000, seems conservative. Incidentally, so long as the proceeds are applied exclusively to the building and maintenance of the highways, it comes nearer to satisfying all of the canons of good taxation than any other tax now on the books.

INHERITANCE AND GIFT TAXES

The inheritance tax yielded \$417,340.81 in 1933, but its maximum yield to date was \$1,000,311.69, in 1929. As there now seems to be a possibility of the federal government's entrance into this field, the future of these taxes in Oregon is uncertain. The yield in the plan is set at \$750,000. State officials have already expressed concern over the possibility of the state's loss of these taxes, because of the possible action of the federal congress.¹

CORPORATION EXCISE TAX

Yield in 1933, \$341,106, including small amount of corporation intangibles taxes. In its best year, 1930, it showed \$673,377.72, so the estimate in the plan, \$400,000, seems reasonable.

INTANGIBLES TAX

There seems to be considerable sentiment among those qualified to judge, for the restoration of the 5 per cent rate. It is alleged that Oregon loses money through the migration from the state of men whose estates would be a source of revenue by means of income and inheritance taxes. The 8 per cent rate is "just a little too high".

1. Magazine Time, July 15, 1935, and current newspapers.

PRIVILEGE TAX ON FOREIGN INSURANCE COMPANIES

This is a source of revenue the importance of which should increase as business picks up. The yield increased steadily to the maximum, \$725,132.74, in 1931. In the next two years it dropped a few thousand dollars, but it is still above the plan estimate, \$700,000.

IRRIGATION AND DRAINAGE ASSESSMENTS, FIRE MARSHAL TAX, REFORESTATION TAX, AND FIRE PATROL TAX

These imposts are ad valorem levies against real property, but for special purposes or benefits, and thus earmarked. Since the funds raised by these means are not available for general purposes, it makes no particular difference in our tax plan whether they are included or not, except that they are an additional burden on certain classes of property owners. Their combined total in the plan, \$1,231,000, is roughly approximate to that in 1933.

PERSONAL INCOME TAX

It is customary for the state tax commission to show the return from the personal income tax combined with that from the tax on intangibles. The estimated yield from the two is set in the present plan at \$4,000,000. This is contingent, however, upon changes in the rates and administration of the income tax, the nature of which will be explained below.

The filing of a return by every adult, whether his income is large enough to be subject to a tax or not seems a wise and useful requirement, provided the filing fee is not set too high. Aside from the check it puts on evasion, the return is useful for statistical purposes, and the filing and payment of the fee serve to make the citizen take a wholesome interest in public affairs, besides leaving a small profit to the government. This plan proposes a filing fee of \$2, with exemptions and rates according to the following schedule.

Exemptions:

Single persons, \$800; married couples, \$1400, with \$300 additional for each child below 18 years of age.

Deductible:

Interest and taxes.

Schedule of rates:

First \$5000.....	2%
\$5001 to \$10000.....	4%
10001 to 15000.....	6%
15001 to 20000.....	8%
20001 to 25000.....	10%
25001 to 30000.....	12%
Above \$30000.....	15%

It is suggested that the British policy of collection at the source be adopted insofar as it is at all practicable, and also that machinery be set up for the acceptance of payments throughout the fiscal year, thus making it easier for the taxpayer by spreading the tax out in small installments.

THE PROPERTY TAX

The general property tax has been charged with almost every fiscal crime in the calendar, and convicted of many of them. So evil has its reputation become that some of the world's taxing jurisdictions have ousted it from the family of taxes and consigned it to outer darkness. And yet, as suggested elsewhere, there is no prospect of our getting rid of it here in the United States. The next best thing is to so mitigate its evil features as to make it serve its purpose as a revenue producer without subjecting those who have to pay it to injustice. As is so often the case with those who have become the subject of condemnatory comment, perhaps its traducers have made no whole-hearted attempt to reform it.

To put the problem in its simplest terms, the principal fault of the general property tax is that it assumes something which is not so: namely, that all property yields to its owner the same income, and therefore is a true criterion of that owner's ability to pay taxes. This, however, is not its only fault. Some of its most objectionable aspects have arisen in modern times from the fact that, with the development of our modern industrial civilization, property has assumed such a bewildering variety of forms that any tax system based upon its homogeneity must work injustice as between owners of different kinds of property. Much property is of such a nature that it can easily escape the eye of the assessing official. Such is not the case with real estate and its improvements, and we may add to this much industrial property, such as the equipment of transportation companies and public utilities.

Oregon, in common with most other states, had in its constitution a clause requiring the assessment of property throughout the state to be on an "equal and uniform" basis. This was construed by the courts to forbid the classification of property for taxation purposes. After several abortive attempts to change this, tax reformers finally succeeded in 1917, in getting an amendment passed by the electorate under which subjects of taxation may be class-

ified "within the territorial limits of the authority levying the tax". While this constitutional change has helped much in improving the property tax in this commonwealth, full advantage has not been taken of it.

In the projected plan, property is set to supply \$43,714,000 out of the \$65,000,000 total budget--slightly over 67 per cent. This is exclusive of the special assessments. The corresponding ratio in the 1929 budget of similar amount was 74.4 per cent. Then, too, as stated earlier in this chapter, the yield of the supplementary taxes, except those on income and intangibles, is set at a depression figure. There is every reason to believe that in practice the property tax would be further reduced.

Now and then sentiment finds expression for a heavier tax rate on land than on buildings. Economists as a rule are opposed to the untaxing of buildings. In the years 1911 to 1915, Professor E. R. A. Seligman and other economists were active in opposition to a proposed partial untaxing of buildings in New York City.¹ The "graded tax" plan of Pittsburgh, so called because it was introduced by slow stages over a period of years, has provoked spirited debate in the meetings of the National Tax Association. This plan, which has been operating in full in Pittsburgh since 1925, provides for a tax rate on buildings only one-half that on land. In the association's 1929 convention the plan was attacked by L. K. Manley, Dean of the School of Business Administration of the University of Pittsburgh. It was defended with equal warmth by the city's chief assessor, T. C. McMahon. The plan, "according to reports, has not forced land owners to improve their holdings. There has been a heavy increase in building, but this is ascribed to the growth of the community. The merit of the plan is reported to lie in its general acceptability to realty taxpayers as being just".² Whether the plan could be put into effect in Oregon without changes in the constitution is doubtful. At any rate, Portland seems to be attempting something very similar by assessing land at 60 per cent of its true value, and buildings at only 35 per cent of their true value.³ It is recommended that the determination of policy in property taxation be left with the state tax commission.

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1. Mills and Starr, Readings in Public Finance and Taxation, p. 396 et seq.
 2. Oregon Voter, Volume 60, p. 37.
 3. Ibid.

Another aspect of the property tax in Oregon which causes some concern is the matter of timber taxation. It is felt by many that the application of the straight ad valorem property rate to timber lands tends to make the owner part with the timber on any terms in order to raise money and to get his valuation reduced. This is, from the broad public standpoint, a destructive policy. To substitute a yield tax for the property tax on timber lands would probably not be politically feasible. The local lumber operators who profit by the present system would oppose a change and the timber owner lives in the East and is without political influence locally.

PROPOSED NEW TAXES

TO BE INCORPORATED IN THE SYSTEM

TOBACCO TAX

In some southern states this tax, either on an ad valorem basis or a package flat rate basis, yields substantial revenue. The Oregon Voter, in Volume 1, page 268, estimated that a tobacco tax at the rates prevailing in these southern states would yield \$2,500,000 in Oregon. In this plan, the rate is set at 10 per cent ad valorem on retail sales of tobacco, cigars, cigarettes, papers, tubes, and snuff. Estimated yield, \$2,000,000. This type of tax would not be a serious burden to any one, although it is conceivable that it might put an occasional marginal dealer out of business.

FIREARMS AND AMMUNITION TAX

This tax would apply to commodities which are, to 99 per cent of people, probably, pure luxuries. The writer has found no reliable basis of estimating the yield, and the figure set in the plan, \$30,000, is largely a conservative guess. Revenue to be raised by a 10 per cent levy on all retail sales.

ADMISSIONS TAX.

Estimated to raise \$40,000 by a 10 per cent levy on all admissions of fifty cents or more. The yield is put at a very conservative figure.

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1. This is the sentiment expressed to the writer by Mr. C. C. Chapman of the Oregon Voter.

Note--In the case of the taxes on tobacco, firearms and ammunition, and admissions, the tax is to be paid by the dealer or exhibitor. Whether or not he can shift it to the consumer will depend upon his price policy and volume of business. Probably at least a part of it will be shifted in most cases.

RETAIL SALES TAX

The writer dislikes very much to propose a sales tax, recognizing its regressive nature and its dangers from a political standpoint. Something must be done, however, to break the stranglehold which the property tax has upon the commonwealth, and until the state reaches that stage of industrial development where other sources of revenue will be amplified to meet budgetary demands, some recourse must, in the opinion of the present writer, be had to this type of levy. The fact that the rate is low, that the tax has proved a fiscal success in some other states, and especially Oregon's present position as a "sales tax island"--these factors may make it possible to get the approval of the electors on a measure of this kind. The estimated yield in the plan is \$1,500,000, based upon the report of retail sales in the state by the Bureau of the Census for the year 1933. The schedule of rates follows:

Sales of	1 cent to	24 cents-----no tax
" "	25 cents "	\$1----- 1 cent
" "	\$1.01 "	1.67----- 2 cents
" "	1.68 "	2.50----- 3 "
" "	2.51 "	3.00----- 4 "
" "	3.01 "	3.50----- 5 "
" "	3.51 "	4.00----- 6 "
" "	4.01 "	4.75----- 7 "
" "	4.76 "	5.50----- 8 "
" "	5.51 "	6.00----- 9 "
" "	6.01 "	6.67-----10 "

Above this, the rates are to ^{be} worked out along the same line, or multiples of the above figures may be used. The plan would have the advantage that no tokens will be needed, although they may be used if so desired. In the absence of tokens, the tax may be entered separately on the sales slip, rung up on a separate counter in the cash register, or the money for the tax put into a special receptacle.

It is to be understood that this tax is in every case to be paid and borne by the consumer. The dealer must not be allowed to assume it, except insofar as such assumption may result from competition in prices.

Commodities subject to the tax on tobacco, firearms and ammunition, and admissions, shall be exempt from the retail sales tax.

The writer has not been able to discover any constitutional objections to a sales tax of this type.

SUMMARY AND CONCLUSION

In order that the reader may get a complete, summarized view of the plan as a whole, there is presented below a list of all the taxes included, with the estimated yield of each.

Old taxes left unchanged:

Corporation organization tax	\$20,000
Declaration of foreign corporations tax	5,000
License tax, domestic and foreign corporations	350,000
License tax, security dealers	20,000
Gross revenue, public utilities	90,000
Privilege, common motor carriers	400,000
Registration, motor vehicles	2,000,000
License, chauffeurs and operators	250,000
Fuel, motor vehicles	7,500,000
Inheritance and gift taxes	750,000
Corporation excise tax	400,000
Privilege, foreign insurance companies	700,000
Irrigation and drainage, fire marshal, reforestation, and fire patrol assessments	1,231,000
Property tax	43,714,000
<u>Old taxes retained, with changes:</u>	
Personal income and intangibles combined yield	4,000,000

Proposed new taxes:

Tobacco sales tax	\$2,000,000
Firearms and ammunition tax	30,000
Admissions tax	40,000
Retail sales tax	1,500,000
Estimated total yield of all taxes	<u>65,000,000</u>

The writer believes that the plan summarized above is as balanced a system as it is possible to devise at the present time, and taking into consideration all of the limiting factors. It is not perfect. A perfect system could not be made, for constitutional and other obstacles stand in the way. It is claimed that the plan is balanced because it will, as prosperity returns, gradually remove the burden which property bears above its legitimate share and distribute it among other elements in the form of levies on incomes, inheritances, gifts, and luxuries. The one fly in the ointment is the retail sales tax, for which due apology has already been made.

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