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“The Problems of Taxation”

AN ADDRESS

By

Harold G. Hoffman

Governor of
New Jersey

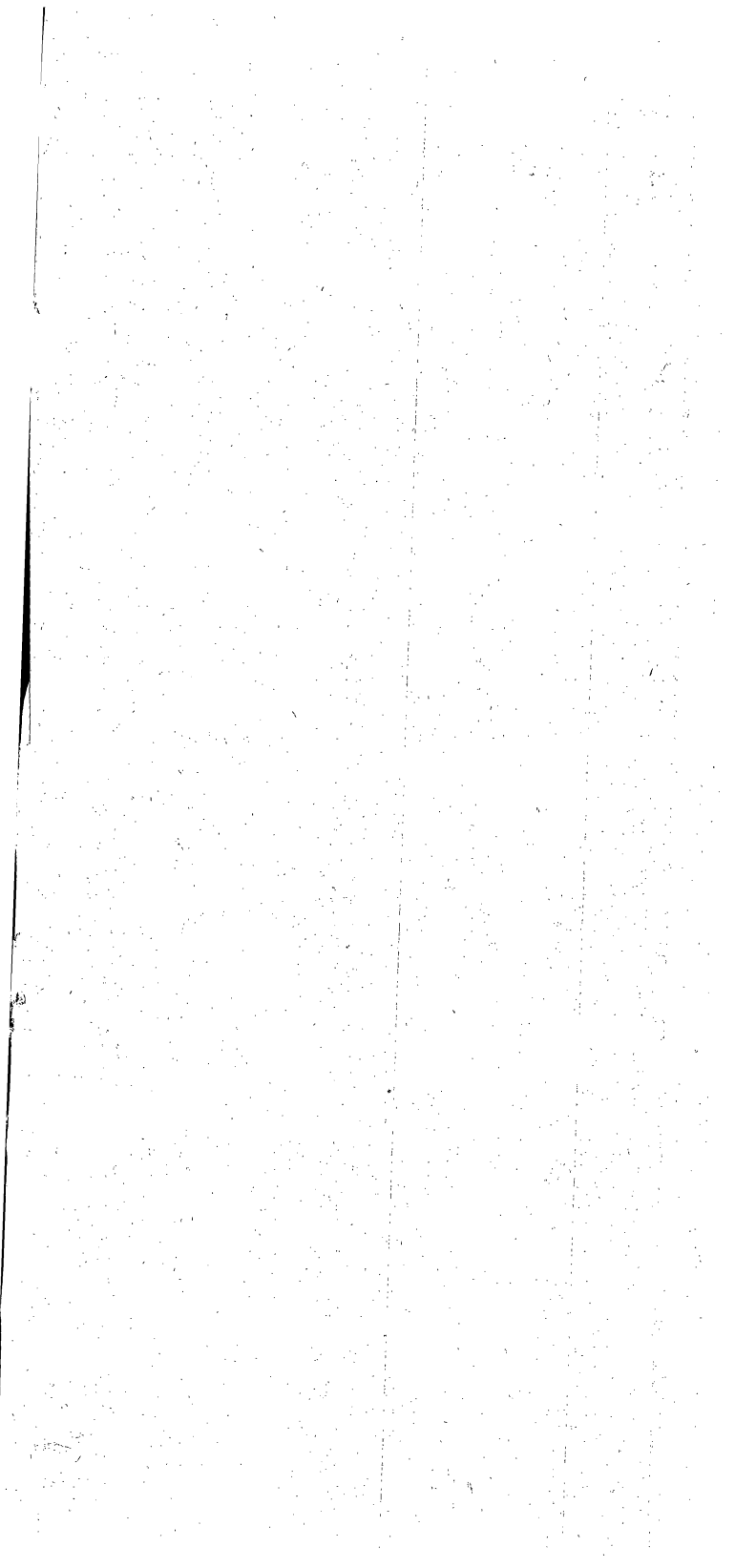
BEFORE THE
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NATIONAL ASSOCIATION
OF REAL ESTATE BOARDS



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THE PROBLEMS OF TAXATION

By

HAROLD G. HOFFMAN

Governor of New Jersey

As Governor I am glad to welcome the representatives of this National Association of Real Estate Boards to Atlantic City and New Jersey. We have within our State many attractions and interests for tourists and visitors. Our Atlantic seaboard is justly proclaimed the playground of America, and while you have come to work we hope that you will remain a while to play. Mayor White and the citizens and officials of Atlantic City have already urged you to do this, I am sure, and Atlantic City has the playthings which interest all classes and conditions of men and women, even cynical realists like realtors.

As Jerseymen we take just pride in our recreational advantages, in our highway system, our schools, our great industrial and agricultural interests and in the historical shrines within our borders, dear to the hearts of all Americans. But we have had and yet have problems of vital public concern to us as citizens, as all of the other States have had and yet have, during these devastating years.

The whole theme of your meetings here involves taxation, public revenues, public finance. The informed opinions that are expressed here and the data and discussions presented ought to have significance beyond our own State and beyond this eastern area. The reactions to your deliberations should and will, I am sure, extend back to every State and community in the country, for you represent, after all, the interests and your association is in a rather definite way the agency through which the owners of real estate, of farms, of homes and business property may best present their problems and their difficulties to the general public.

The realtor, in recent years, has become not merely a slick salesman who sells wilderness lots for a paper city, and sand dunes for peanut farms, but a substantial and responsible citizen of his community who serves the people as well as the public and who acts as a sort of trust officer for real prop-

erty, which yet remains as the basic and fundamental source of our national wealth. More than any other group, perhaps, this national association will be instrumental in bringing home to the people in convincing terms the need of adjusting our whole taxing system to modern conditions, the necessity for public spending within the capacity of the people of the community, the State and the nation and the spreading of the tax load required to provide public revenue for essential service over all of our wealth that is properly taxable.

I need not dwell upon the historic development of our taxing systems here. You are thoroughly familiar with these matters. For a generation and more the question of a more equitable adjustment of our tax load has been discussed with growing interest and intensity in practically every State in the Union. During the past five years a new factor has entered this question of public revenue and for the first time the inability to collect taxes levied and spent for public purposes, bankruptcy of municipalities and even States, the extensive confiscation of homes and farms and private property through taxes that the property cannot earn and pay and the repudiation of public debt has become common and almost chronic in many parts of the country.

A number of the States have grappled with their own problems of public finance with admirable determination. They have brought some order out of the existing confusion and have had some success in distributing the tax load more equitably over the taxable wealth and in a way in which it can be carried. Here and there, there have been, of course, wise restrictions as well as some that are unwise in levying taxes, in borrowing and spending for public purposes, but I think we must agree that we have not yet learned that the ordinary principles of living within our means, of saving, of borrowing and spending apply in our public undertakings in the same way as in our individual and family life.

Serious things have happened to the American people in the past five years. Far-reaching changes are going on. We are in a period of change and the voice of the demagogue, the self-seeker, the person who wants to be provided for at the expense of the industry, the initiative of another and of those who advocate destruction rather than growth is heard on every hand. We have said over and over again that the pocket nerve is most sensitive. It seems to me,

however, in these days of the New Ordeal that the responsiveness of those in authority is limited to that part of our population that has not particularly bothered about providing themselves with pockets. We must take care of our neighbors in distress, and while we do not complain about the public funds that other States have received we in New Jersey insist that we have carried our full share in these distressing times.

As a conservative people who still believe in our ability to provide for ourselves if the opportunity can be returned to us, we have gone too slowly in this effort to adjust our taxing procedure to the changing conditions of the taxpaying ability of the people, as has happened, perhaps, in many of the States represented here. We have followed the course of expediency and we have refused to face the plain and threatening facts. We have punished the frugal worker, the farmer and the little businessman who saved a part of his earnings and bought a home for his family. We have assessed his property at full value and taxed it at a high rate because it could be seen and appraised. We have made almost no effort to shift the burden of taxation from the home to that great proportion of our wealth represented in personal property, in income and intangibles, and we have not taxed in proportion to the benefits received nor the ability of our citizens to pay.

Your six-point basic program for tax reform, therefore, appeals to New Jersey people, and most, if not all, of its features must be accepted as a part of a sound taxing procedure for any State. In New Jersey, more than in most States, we continue to depend upon the real property tax as the main source of our whole revenue system for local government. While our tax laws require the assessment of personal property on the same basis of valuation as real property, these laws are not observed. While it is estimated that real property in our State represents about one-third of our total wealth that is properly taxable, real estate pays more than seven times as much tax for the support of local government as the much larger volume of personal property. We have no income tax on personal or corporate incomes and the sales tax is of short and painful memory.

A year ago I thought it would be possible to bring the people of our State to see that we could not continue to borrow for our current expenses, pile up impossible debts for future generations or continue

to live under our antiquated and inadequate revenue structure whose design was for an entirely different period, a different society and widely different conditions. I did not believe that we should continue to destroy the value of farms and homes and business property, permit wholesale confiscation of property through impossible tax levies, see our municipal credit completely exhausted and the whole fabric of our government facing bankruptcy. I advocated in my Inaugural Address last January a frank facing of this tax crisis in New Jersey, a rejection of the policy of continued borrowing, a change to a pay-as-you-go basis, a balanced municipal budget in fact and not in fiction, a surer foundation support for our public schools, refunding of our tremendous municipal bonded debt at lower rates, to be made possible by sound taxing and spending policies, adequate municipal budget procedure, a just and equitable system of property assessment, an effective method of tax collection and a reduction of the tax on real property by at least one-third. I proposed a plan of control in spending which would operate to limit the taxes on real property to a reasonable annual use basis as advocated in your basic program.

I proposed to replace, but not to add to, our present revenues by an income tax and a sales tax. It is no secret that there was some opposition. It is a peculiar characteristic of the American citizen that he wants his tax pills sugar-coated and not in the raw. The man who had not paid direct taxes before resisted joining the ranks. He was encouraged mightily in this position and the chorus continued to swell. Our people, I am sorry to say, have for the time being rejected the simple fact that direct taxation where the amount and kind of tax is known and the property or commodity upon which the tax is placed can be easily determined is the cheapest and best tax, and that the indirect tax wrapped up in the process of manufacture or exchange and concealed in the overhead is the heaviest and most unsatisfactory kind of tax. We still cling to this debtor's tax on real estate with all of its destructive influences on our economic and business life, yet I am confident that we must accept the plain logic and the compelling facts of this whole question of taxation and public revenue and develop in New Jersey an adequate, a just and a sound tax procedure for the support of our administrative services, local and State, and our public institutions.

I referred just now to the tax on real estate as a "debtor's tax", and it is just that. We tax, in New Jersey, and the same thing applies in almost every part of the country, the holder or purported owner of real estate on the basis of its appraised value, notwithstanding the fact that the property may be mortgaged for more than the current selling price and the citizen in whose name the property stands does not own a single dollar's worth of real equity. I sometimes illustrate it in this way. As a working citizen I have saved five thousand dollars. I pay ten thousand dollars for a home. I invest my five thousand dollars savings and my neighbor takes a first mortgage of five thousand dollars. He owns the best half of my house. He gets his interest, he pays no taxes on either the investment or the income, and I am assessed at the full market value of the house. And this is no exception. The real property tax is in fact a debtor's tax and the holder of the property cannot continue to pay the increasingly heavy tax demands on real estate whether he uses the property for a home or not and when its annual use value is less than the amount required to pay the taxes and mortgage interest.

You are emphasizing at this meeting the matter of over-all tax limitations on real property. This proposal appeals to the great mass of people. I do not hesitate to say that I had this principle in mind when I began to formulate my proposals for changes in our own tax procedure and in the development of a sound and adequate and equitable revenue system. The great majority of students and those who may be called authorities on tax problems are against tax limitations. They insist that it does not work in practice and may be circumvented by the mere subterfuge of increasing the assessments and reducing the rate. The evidence from the States that have adopted tax limitations is, I understand, decidedly mixed. Much as I favor the ends which you seek, in honesty I am compelled to say that it seems to me that we must go slowly on this matter of tax limitation in New Jersey.

The New York financial houses are the markets where we sell our municipal bonds and tax paper. A New York statute provides that no obligation issued after 1938 by any county, municipality or school district of any other State shall be a legal investment for the moneys of savings banks in the State of New York unless such county, municipality or school district shall have power to levy taxes on the taxable

real property therein for the payment of such obligations without limitation of rate or amount. New Jersey municipalities can realize through complete refunding at more advantageous rates millions of dollars a year and thus assist in lightening our heavy debt service costs which have played such serious havoc with our municipal finances. A statutory tax limitation rate for New Jersey, then, would defeat the very purpose we seek while this New York statute prevails and while New York's financial institutions represent the main market for our municipal obligations. I am satisfied, as I have studied the problem, that the essentials of the limitation you seek can be realized, but it must be approached, for the present at least, in New Jersey, in a somewhat different way.

The true aim of your Association, as it must be of every interested citizen, is to provide for an equalization of the tax burden based not only upon the ability of the taxpayer to pay, but having some regard for the cost and character of the services rendered by the government to the citizen himself. All of our efforts must be directed toward that taxing policy under which the owner of a home or the man who invests his savings in property shall not be punished for that display of good citizenship and confidence in his community and shall not be called upon to contribute to the cost of government beyond his ability or beyond the burden of other citizens who have like ability to pay.

We can improve our present taxing procedure by a careful and equitable assessment of all property through competent appraisers chosen and retained on the basis of merit and working under a definite valuation policy applied to the whole State.

We can obtain further improvement by a comprehensive and effective tax collection policy applicable alike to every community and every citizen of the State, but we cannot eliminate the fundamental unsoundness of that taxing policy which punishes one group by compelling it to carry an undue proportion of the tax load in order that other groups containing a great majority of the people may be relieved from their proper share of taxation. As a matter of political expediency, it may be well to trail along with the greatest number of votes. But as a matter of common honesty and the necessity of solving this tax problem in the right way, it becomes a solemn obligation of those in public position to advocate and

support that policy which is permanently essential and sound.

We should not permit ourselves to forget that taxes, whether paid directly or indirectly, whether we call them taxes on franchises, on sales, land or income, must in the last analysis come out of the income and earnings of the people. Money cannot be paid out until it has been earned and every tax comes from earnings. Income taxes are unpopular, yet everyone can understand what is meant by a direct income tax. What the average citizen does not seem to see, however, is that when government is supported by borrowed money, both the principal and the interest must be paid out of the people's income sooner or later, and no one, rich or poor, can escape paying the debts of government.

Capital levies, such as we have witnessed on real estate in recent years, represent confiscation of incomes and earnings of earlier years. We cannot escape the fact that taxation on properties that do not and cannot earn the levy is unsound and can only end in disaster. So your proposal that property tax must be levied in accordance with its annual use value is sound. There is, of course, a service rendered to property in the way of protection by the community, which costs money, and where there is no income, sound tax policy must continue to carry that service charge. But a tax on property beyond its use value and on the basis of its cost at some earlier period represents a capital levy, and further tax upon the earnings or income of earlier years and eventual confiscation and destruction of value itself.

The sound principle of taxation is one that builds rather than kills, and no public question is more pressing or important today, whether it be in the community, the State or the nation, than that of raising public revenues, meeting our public obligations and living within our financial capacity and ability.

I need not say, of course, to this audience that we are nowhere near a satisfactory solution of our tax problem. We have not learned how to control our tax spending. Keeping in mind our tremendous wealth in other forms besides lands and buildings and the protective value of the services of government to these other forms of wealth, it must be clear that far-reaching changes must be made in our taxing practice and thought. The financial statistics of State and local governments for 1932, and there has been little change since then, show that the property

tax provides twenty per cent of the revenues of State governments, eighty-six per cent of county governments, ninety-one per cent of city, town, borough and village governments, one hundred per cent for school districts, ninety-four per cent for townships and ninety-eight per cent for all other civil divisions. These figures alone tell their own story.

And from a consideration of our tax procedures in our local or in our State governments, we touch at once the taxing policies of the Federal Government. For a century at least, we have recognized that taxes should be levied for the necessary expenses of government and not as a matter of punishment or retribution. We see today the punishment principle openly advocated in federal taxation. We see likewise the taxing principle applied to one group of workers for the purported benefit of another. We see the tax principle exercised ruthlessly to create an economy of poverty as a preliminary essential to "the more abundant life".

Since its initiation two years or so ago, the consumers of this country have paid around a billion dollars in processing taxes on the very essentials of life. The processing tax on wheat, on cotton, on corn, hogs, tobacco, rice, peanuts and sugar places an added consumer-burden upon the people of New Jersey of twenty-one millions of dollars a year—a sales tax ranging from four to twenty per cent upon the things that we use and eat and wear every day, and out of these millions, New Jersey farmers receive not more than one hundred and sixty-five thousand dollars. These taxes are hidden in the overhead, and we pay ten cents on a pair of overalls, eight cents on a sheet, five cents on a workman's shirt and five cents on a pound of bacon. But we refuse to pay one-fifth of this amount as a direct sales tax to feed hungry women and children and men who cannot find work!

Through this same fantastic policy, we are destroying our markets for these staple products abroad and at the same time the possibility of early recovery. For three hundred years and more, America has not only fed itself, but it has helped to feed the world. In 1933, we exported wheat, corn, rye, lard and pork. In 1935, we imported wheat, corn, rye, lard and pork. And in the meantime, the New Dealers point with pride to the fact that we have taxed ourselves almost a billion dollars to bring about this happy consummation. We have been so successful in this during the past year that

our imports from Canada have increased eighty-seven per cent over last year and our exports have dropped over ninety-nine per cent.

For the first eight months of this crop year, our exports of cotton were less than three million six hundred thousand bales, while for the same period the year before we exported over six million bales. In 1932, Germany imported one hundred and twenty-five thousand dollars worth of cotton from Brazil, and in 1934, twenty-three million four hundred thousand dollars worth of Brazilian cotton was brought to the German market. That market heretofore was our market. We have lost it.

And the wild economic planning continues. Secretary Wallace pays the farmer one hundred million dollars to reduce his wheat acreage, another huge sum to grow less corn, and he naively wonders why bread should go up one cent per loaf. Secretary Ickes has loaned twenty-two million seven hundred thousand dollars to convert sixty-three thousand acres of arid land into crop-producing ground in the Casper-Alcova irrigation district, and Secretary Wallace has been granted funds to remove a few millions of acres from agricultural production. We use federal money to destroy in one direction and to create the same things that we are destroying in another direction. Verily, we do not let the right hand know what the left hand doeth. And our federal deficit is ten millions of dollars a day.

I remind you again that government has no resources except the savings and wealth of the people, and government has no revenues except as it exercises the taxing power which it possesses. Some of these days, we are going to be compelled to stop spending and balance the budget. We are going to be compelled to give business not only a "breathing spell" but assurance and support sufficient to permit the American people to produce enough for their needs and to earn enough to pay the taxes which must come to liquidate the fifty billions of dollars of debt represented in Federal, State and local borrowings. When that time arrives, New Jersey must pay her share.

The Federal depression deficit to July 1, 1936, is estimated at sixteen billions. New Jersey's share of that debt is six hundred millions. Of the national campaign fund for 1936 of four billion eight hundred millions, New Jersey will pay one hundred seventy-nine millions of dollars. When the interest on this borrowing is considered, then this little State will

pay for the depression a sum equal to the total gross debt of the State and all of its municipalities, or one billion and a quarter. Every other State will pay in its proper proportion.

When we think about building irrigation ditches in the desert, of financial grants for zoological gardens, for lily ponds and all of the other ingenious devices to spend money uselessly which the brain trusters have created, we ought to think a little bit about settling the bill. The taxes that we know now, even the relief tax on retail sales, will be most attractive and inviting as compared with those that are to come. There has been laid upon New Jersey an assessment of two million dollars a month for relief purposes, as designed and applied in accordance with the standards of the Federal Government. In 1934, we paid just under one hundred millions of dollars into the Federal treasury as Federal taxes. Against this, New Jersey received just over fifty-two millions of dollars as Federal aid of all kinds.

New Jersey citizens have never resented the payment of their share of the costs of the Federal Government. We do maintain, however, that it is an unfair tax upon the people of this State to require New Jersey to pay forty per cent of the total relief cost and give this forty-seven million dollars of our money to other States paying less than ten per cent of their relief costs. I do not blame the people of New Jersey for their reluctance to pay tax when they are taxed so heavily in many directions. I believe that more of us should pay taxes, but I demand equitable treatment in this matter of relief costs. This question of taxation is so big and so broad that no adequate discussion can be made of it at one time.

In conclusion, I should like to make this observation, that there will be no solution of our tax problem in this country until the tax load of all of our governments is spread equitably and fairly over all of the wealth and services of all of the people that are properly taxable and until we learn to restrain our public spending within the limits of our ability to pay. The Federal Government may tax such wealth and services as it sees fit. It has always had the first bite of the cherry, and its revenue measures have been devised without much regard for the problems and taxing policies of the States and of the local governments. The State governments likewise have not always thought carefully of the effects of their taxing and spending policies on the local gov-

ernments. As a consequence, we have no taxing system in America but conflicting and double taxation and confusion as hopeless as may be found in the alphabet groups in Washington. There must be developed a coordinated taxing system for the community, the State and the nation, with a division of the taxing field, a sharing of tax revenues and a spreading of the tax load if we are to continue as a free nation of sovereign States and solvent local governments, pay our public debts and maintain our essential governmental services.

