THE

# NEW TAX LAW

OF INDIANA

AND

# The Science of Taxation.

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# I.—THE NEED OF TAX REFORM.

At the present time, when the public mind is directed to the question of taxation, and when a fair and candid discussion of that question will perhaps receive some portion of the attention which the importance of the subject merits, it seems desirable to present to the people some considerations of the science of taxation in connection with the new tax law, and this not only as to what the law is but also as to what it should be. It is especially desirable that the members of the Democratic party should give the subject careful attention, because they are at present intrusted with the government of the State, and have expectations of continuing for a time in that trust. Indeed, to realize that expectation they must consider the subject well, for taxes know no party discrimination—they fall alike on the just and the unjust—and it will always strain the party allegiance of a tax-payer to remain content with an unjust or vicious tax law merely because his party originated it. Party policy itself, therefore, demands that we should consider this question primarily as citizens, and should give any law our approval or disapproval as it tends to promote or impede the general welfare.

In one sense the science of taxation may be said to be in its infancy. Taxation, of course, is as old as government, and it is probably impossible to devise any system of taxation that has not been at some time in use, or at least been advocated as desirable. And yet, with all the experience that has been had, and the vast amount of study and thought that has been given the subject, it appears impossible to secure universal consent to many of what would seem to be rudimentary principles. For example, the people of the United States are divided on the question whether it is legitimate and advantageous to levy a tax for the avowed purpose of producing economic results entirely distinct from the raising of necessary revenue—that is to say, for the so-called protection of home industries. And it is a singular fact that quite a number of those who oppose such a tax are strongly in favor of a tax aimed at an economic

result equally distinct from the raising of revenue—I refer to the "single tax," or "tax on land values." which is urged by its friends on account of its anticipated effects on the occupation, use and price of lands. Beyond such rudimentary questions there are almost endless controversies as to the modes, limitations, safeguards and ultimate effects of various systems of taxation, that exasperate and confuse the student and cause the casual reader to suspect the whole subject one of guesswork.

I take it that this diversity of opinion is chiefly due to three causes:

1. As a country advances from a primitive state to one of high civilization there is necessarily a change in its industries and its forms of wealth which call for changes in its tax system. No system devised in the abstract would be equally advantageous at all times or in all countries. And yet there are some principles that are universally applicable, and evils may be pointed out which should always be avoided.

2. The necessity of the defense of a system by the power that originates it often produces a resort to fallacious argument and manufactured facts, and in free countries this style of debate also often characterizes the attacks on a system by the opposition party. Hence there may be found attacks on and defenses of almost all schemes of taxation, which will, of course, be accepted as satisfactory by some portions of each community.

3. The inherent intricacy of the subject, reaching out as it does to all the financial and property interests of the State, prevents any simple solution. As in other complicated subjects, the remedy which at first blush seems best may on reflection be seen to be the worst that could be applied. If there were any easy and simple way of perfecting a tax system it would have been discovered and utilized years ago. Whenever you find a man who has a simple scheme for a perfect system of taxation, or of revenue, or for any other great governmental problem, you will find, on examining his system, either that it is something which has been tried and proven a failure or that it is so utterly impracticable that no one could be induced to try it. As a rule, superficial remedies and superficial objections should be disregarded. The merits and demerits of a tax system are not to be judged by surface indications. If the experience of centuries has taught the world anything it has proven that the sources of evil of a system of

taxation are to be exposed only by deep and thorough investigation. They are like those diseases of the blood which manifest themselves in eruptions on the skin. It is useless to make surface applications of salves and lotions. You must go to the center of the system with your remedy.

From the existing state of the science of taxation it results that almost any system of taxation may be assailed or defended easily and plausibly, and this has led modern investigators to rely chiefly on experiment and observation, and is leading them to a convergence in the opinion that the system of taxation is best which works best. No system, however faultless in theory, is of any value if it can not be applied practically. No system is to be condemned, though seeming faulty, if it "works out" well. In other words, any system tried at all should be tried fairly and judged by its results, not by theoretical criticism only. The manifestations of these facts are found in the special attention now given to taxation in our universities which make political economy a specialty, and in the appointment of tax commissions, in several of the more progressive states and cities, whose special business is to examine into various systems of taxation and report to the legislative bodies. Among the more notable of the latter are the New York Tax Commission Report of 1871, the Maryland report of 1888, the Baltimore report of 1881–2, the West Virginia report of 1884 and the Pennsylvania report of 1889. This work may fairly be called the beginning of American fiscal science, for prior to it there was no systematic study of taxation and no literature on the subject except a few political speeches and chapters in general works on political economy.

The new study has already produced some material benefits, as for example calling public attention to the value of corporate franchises as sources of municipal revenue—a subject which has been very fully considered during the past year in connection with the city government of Indianapolis. One thing has certainly been demonstrated by this investigation, and that is that the old system of assessing, levying and collecting the general property tax, which was substantially the same throughout the United States, was grossly unjust and inequal, and therefore contrary to the spirit of the constitutional provisions whose letter it purported to carry into effect. It has been made evident that it favored the rich as against the poor, the corporation as against the natural person, the owner of personal property as against the owner of real property,

and the tax-dodger as against the honest citizen. The testimony to this effect is overwhelming, and its causes in part at least are evident.

The subject of taxation was brought into prominence in Indiana by the condition of the State's revenues. The State was in debt and the debt was being increased annually by a deficit of over five hundred thousand dollars. It was necessary to raise additional revenue. There was a common opinion that much property was escaping taxation because the law did not provide that it should be taxed. On examination it was found that this idea was erroneous. The law provided: "All real property within this State, all personal property owned by persons residing in this State (whether it is in or out of this State), and all personal property within this State owned by persons not residing within this State, subject to the exceptions hereinafter stated, shall be subject to taxation," and throughout the law the provisions and definitions were so broad that scarcely any property imaginable was not legitimately included. In some states legislators have undertaken to define specifically what property should be taxable, and in such cases there have always been unintentional omissions, but Indiana was not in that condition.

The whole trouble was that the law was not enforced as written. No one pretended to return his property at its "fair cash value," as the law expressly provided, and no assessor pretended to assess at "fair cash value," as he was required under oath to do. There was an universal understanding that "fair cash value for assessment purposes" was an entirely different thing from "fair cash value" for any other purpose. The machinery for enforcing the law was crude and imperfect. The boards of equalization were hampered by restrictions that absolutely prohibited equalization. If the tax officials had earnestly desired to enforce the law they could not have done so. Under these circumstances it was necessary to reconstruct the law with a view to giving it vitality, and to this task the members of the Legislature to whom the duty was assigned resolutely addressed themselves. They examined the literature of American taxation as far as their limited time would permit. They counseled with persons acquainted with the subject. They obtained a fair view of the existing evils and submitted their plans for correcting them to the Legislature.

It would be absurd to contend that the last Legislature of Indiana framed a perfect tax law—no such law has yet been

formulated in any country. It would be folly even to assert that the Legislature did the best it could have done, for there was necessarily a lack of information and a conflict of opinions that always characterize first attempts at reform. Some concessions had to be made to secure any law, and there were constitutional restrictions in the way of some desirable amendments. The Legislature itself recognized the imperfection of its work by offering an amendment to the constitution for the special taxation of corporations (Acts, p. 484) and by its provision for tax commissioners who are required by law "to make diligent investigation and inquiry concerning the revenue laws and systems of other states and countries," and "to recommend to the General Assembly, at each session thereof, such amendments, changes or modifications of our revenue laws as seem proper or necessary to remedy injustice or irregularity in taxation, or to facilitate the assessment and collection of public revenues." (Sec. 120.)

There is a substantial merit in doing something when relief is needed. It is better to try some remedy than to stand still and discuss the merits of various systems. Possibly the remedies selected may not be the best, but whether they are or not will never be learned from the mere discussion of theories. If the Legislature has started in the right direction, if it has done something to improve the wretched system in use, if it has made advances toward equality and justice in taxation, it is entitled to the thanks of the commonwealth, and I think it is apparent that it has done this much. Certainly the entry for the first time on the assessment lists of thousands of dollars of taxable property, and the outcry of those who have heretofore evaded the law, are not evidences of any deterioration in the law.

## II.—APPRAISEMENT AT TRUE VALUE.

The feature of the new tax law which has thus far occasioned the most complaint is its provision for enforcing the requirement that all property shall be assessed at its fair cash value, which is defined to be "the usual selling price at the place" where the property is located, or "the price which could be obtained therefor at private sale, and not at forced or auction sale" (Sec. 53). And yet this is clearly the most

valuable feature of the new law—the greatest step toward equal and just taxation. Those who have heretofore evaded taxation have been shrewd enough to foresee the effects of equal assessment, and by their clamor have unquestionably duped many persons who will actually profit by the system which they denounce. The necessary effects of "fair cash valuation" can readily be made apparent to any reasoning man. Let us examine the matter.

There are two factors that determine the amount of taxes paid by any citizen—(1) the assessment of his property, (2) the rate levied. As between individuals the rate is fixed; that is to say, in each township or city each tax-payer must pay the same rate on the assessed value of his property. Therefore any advantage obtained by one individual over another must be through the assessment. As between townships the county rate and State rate are fixed, and hence any advantage obtained by one township over another must be through the assessment. As between counties the State rate is fixed, and hence any advantage obtained by one county over another must be through the assessment. In other words, so far as the administration of the law is concerned, all inequality of taxation is inequality of assessment. (Of course no reference is had to inequality created by the law, such as exempting certain property or duplicating taxation.) Hence the point to be guarded is the assessment, which must be so regulated as to prevent, as far as possible, the concealment of property, or its undervaluation or overvaluation.

The natural basis for valuing anything is its actual worth —its fair cash value—which is exactly what the law calls for. Money is the universally accepted measure of value, and the money equivalent of anything is its actual value, in the commercial sense. This is more easily and accurately arrived at than any other value. True, it is to some extent a matter of judgment as to which men will differ, but they will not differ materially. It is the value most universally and correctly understood. Men may quibble about it, but everyone understands what "fair cash value" means, and the quibble is merely for the sake of quibbling. Additional definition is more likely to obscure than to clear its meaning. For example, a recent Utah statute defines it as "the amount at which the property would be taken in payment of a just debt due from a solvent debtor," but this introduces an unnecessary element of uncertainty, for the price in such case would depend on

whether or not the creditor wanted that particular kind of property; whether the debtor would probably resist collection in money; and whether the debtor was barely solvent or of unquestionable wealth. It is sometimes endeavored to assess at a fixed per cent. of fair cash value (or true value, which is to be understood as the same thing when used in reference to this law), but in such case the true value must first be estimated and the per cent. calculated, so that the determination of value is merely complicated to that extent.

Whatever basis for valuation is taken, it must be fixed absolutely, for if assessors are permitted to depart from a fixed rule there is an end of all equality. Each assessor becomes a law unto himself, and if any two adopt the same basis it is the result of chance or similar local interests. For example, at the last appraisement of real property under the old law, the assessors in Marion county aimed to assess at 60 per cent. of the true value. In St. Joseph county, at the same appraisement, it was aimed to assess at 40 per cent. of the true value. Other counties undoubtedly varied still more. The result was that the residents of Marion county paid 50 per cent. more State taxes on the same true value of property than those of St. Joseph county. Throughout the State the old law was administered as if it read, All property shall be assessed at its full cash value or at such per cent. of the same as the assessor may prefer.

The most common basis of valuation used in Indiana was the value at forced sale. As commonly expressed, "fair cash value for assessment purposes," meant "what a thing would bring if put up by the sheriff and sold to the highest bidder." This was applied more particularly to personal property, for there was usually some attempt made to arrive at either a uniform percentage valuation or a uniform acreage valuation of real estate. In so far as this distinction was observed there was a discrimination against real estate, for of all methods of escaping taxation, except concealment of property, "forced sale valuation" is the most successful. The sheriffs had not been idle in Indiana since the panic of 1873, and it was notorious that prices at sheriffs' sales were extremely low. So uncertain was this basis that an assessor could hardly dispute any kind of valuation, and it is a matter of public notoriety that large amounts of personal property were returned at merely nominal value.

You sometimes hear men discussing a sale of property,

when one will say: "It brought all it was worth," and another: "It should have brought more money," but when they put their ideas into figures there will ordinarily be no great difference in the values fixed by men acquainted with the market. If you ask the same men for a "forced sale valuation" they will either tell you that such a valuation is pure guesswork, or, if attempting to fix values, they will vary much more widely than they do as to the market value. The reason for this is that besides all the elements of uncertainty pertaining to true value there are additional ones affecting forced sale value, and of these the most important are, (1) the knowledge of buyers that the sale is forced—that the seller has no choice nor power of self-protection; (2) the limit of time which cuts off the probability but not the possibility of competition; (3) the lack of warranty of title, from which the purchaser not infrequently buys a lawsuit instead of property; (4) the right of redemption of real estate, which often limits the bids to the amount of debt sought to be collected; (5) the temporary condition of money as to plenty or "tightness," which is liable to make a difference of 100 per cent. in forced sale prices in a very few days.

But worse than the inherent uncertainty of forced sale valuation is the fact that it bears continually against small properties. If you will take three residences fairly worth $500, $5,000 and $50,000 respectively, you will find them assessed in the average Indiana county at about $300, $2,500 and $20,000—that is to say at 60 per cent., 50 per cent. and 40 per cent. of their respective values. Anyone may prove this by investigation. Take the fine residences of your town and the ordinary residences, estimate their fair values and then compare their former assessed values. The smaller property will always be found assessed at a higher per cent. of its true value than the large, unless the latter should happen to belong to a non-resident or a foreign insurance company. And the discrepancy is greater as to the personalty than as to real property. There are four reasons why this state of facts exists: (1) All values are affected by supply and demand. Where there is one person able to buy a fifty-thousand-dollar house, there are 100 buyers for a five-thousand-dollar house and 1,000 for a five-hundred-dollar house. Hence, it is certain that at forced sale the smaller property will bring a larger per cent. of its true value, and if we are to have a forced sale valuation for a basis of assessment it is just and

right that the larger property should be appraised at a smaller per cent. of its value. (2) The rich man finds it to his interest to devote time to the care of his property. He can well afford to put in a day or two with the board of equalization, or even to employ an attorney, to secure a reduction of assessment to what he claims would be a forced sale value. On the other hand, his poorer neighbor is not familiar with business affairs and cannot leave his daily labor for the chance of securing a reduction in value, which may amount in taxes to less than a day's wages. (3) When you pass beyond necessaries of life and come to luxuries, price is always more affected by use. The man who is able to live in a fifty-thousand-dollar house is able to indulge his tastes by building one to suit himself. Wealthy Mr. A. does not desire to use second-hand furniture of Mr. B. or ride in the carriage that Mr. C. has occupied, even though no sign of wear is visible. Hence, at a forced sale, the finer and more costly the goods the greater shrinkage in percentage of prices paid, but everyone knows that their fair cash value does not shrink in the same proportion. (4) There is a peculiar impression produced on the mind by the contemplation of the amount of taxes paid by a citizen, not considering the amount of his property, that for want of a better term may be called the fallacy of gross amount. The wealthy man, when it comes to taxation, imagines that he is in some way aggrieved by owning so much property, and the assessor is very apt to form his opinion as to the rich man's just share of the public burdens from the amount of the tax instead of the amount of his property. It is difficult to realize fully that a million dollars' worth of property in one man's hands should be taxed no less than the same amount in ten men's hands.

The difference in the rate of valuation between large and small property holders is well known to everyone who is conversant with taxation in its practical application, and it is found wherever there is a departure from fair cash valuation. A few extracts from reports of investigators will show this, and illustrate other statements as to inequality made above.

"A man of small means pays as a rule, more in proportion than a man of large means. The statistics bearing on this point will scarcely be credited by persons who have not investigated the subject, and they exhibit a condition of things that ought not to be tolerated. It will be found, for instance, that a house and lot worth $800 is valued at $700, while

a house and lot worth $8,000 is valued at $4,000—in the one case at seven-eighths and in the other at one-half; that is to say, the owner of the small property has $100 untaxed and the owner of the large property has forty times that amount untaxed. Again, when a person dies his entire personal estate is listed and valued by the appraisers, whose appraisement is recorded by the county clerk. By comparing a number of these appraisements with the tax assessments made next prior to the death of such person, we find that a man with a personal estate valued immediately *after* his death at $200, was rated immediately *before* his death at $178; while a man whose estate is appraised at $5,000 was rated at only $1,500." —*West Virginia Tax Commission, report of 1884.*

"It is the theory of the law that the burden of taxation shall rest equally upon the citizens and taxpayers of the commonwealth in proportion to their property. * * * But the practice is widely different from the theory. The realty of one man is assessed at one-third, one-half, two-thirds, or even the full measure of its actual value; while that of his neighbor is assessed at one-sixth, one-tenth, one-twentieth, or as was shown in one instance of considerable magnitude, one twenty-fifth of its actual value. The owner of the one pays as his annual tax five or six per centum of the whole capital invested, while the owner of the other pays one-fourth or one-fifth of one per cent. Such distinctions are too invidious to be meekly borne. The discriminations in favor of personal property, and against realty, are glaring and unjust, amounting in some species, of the former class, to an almost total escape from taxation."—*Illinois Revenue Commission, report of 1886.*

"A house worth two, three, four or five thousand, will, in Baltimore, at any rate, be assessed for nearly its true selling value, and sometimes for more, while a house worth from thirty to eighty thousand or more will probably not be assessed for over two-thirds its value, the owners arguing, and with some plausibility, that it could not be sold for what it cost. It may be doubted, however, whether the Legislature intended those whose means enables them to build houses so expensive that there is no market for them, to bear a smaller relative burden than others."—*Prof. Ely, of Maryland Tax Commission, report of 1888.*

"Inequality in assessed valuation is in effect unequal taxation, and a departure from the rule of valuing property at its

fair market value is fraught with many evil results. When assessors depart from such a rule they are adrift and without any compass to guide them. If they set out with the determination of assessing all property at 20, 30 or 40 per cent. below its market value they are far more likely to fall into errors than when they keep a practicable rule like that mentioned always in sight."—*Pennsylvania Revenue Commission, report of 1889.*

"In the late returns of the assessors of all the towns of the State for the use of the State valuation commissioners, it appears that the assessors of 132 towns based their taxes on less than a just value of the property assessed. Thirteen based them on four-fifths value, thirty-five on three-fourths value, fifty-three on two-thirds value, and sixteen on one-half, while in two towns the assessors considered their duty done when they assessed at one-third of the 'cash value' of the property taxed."—*Maine Tax Commission, report of 1889.*

In all these cases the commissions insisted on appraisement at true value, and recommended stringent measures for securing that result. As reasonable men they could not do otherwise. It needs no argument but the facts themselves to prove the necessity of assessment at fair cash value if there is to be any equality in taxation. Large property-owners may object to it from interested motives, but the small taxpayers, who constitute the great mass of the people, will be injuring themselves if they do not stand resolutely for a universal appraisement at fair cash values. Public sentiment will have much to do with the proper enforcement of the law, and securing the relief which it contemplates. The small property holder need not be deceived. Whenever he gets his property reduced one or two hundred dollars below its true value, he may be sure that wealthier and more influential men will secure far greater reductions, and that in the end his taxes will be increased by what he imagines to be a reduction. *

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*NOTE. An investigation of the actual results of the new appraisement in Center Township, Marion County, (including the city of Indianapolis), showed that there were 549 taxpayers who owned property valued at $25,000 or over. The total property owned by these was $53,833,090, or a little over one-half the total valuation of the township, which was $105,658,575. The effort to reach true cash value had increased this property to this amount from $30,723,180 in 1890, or an advance of 75 per cent. The remaining property in the district was owned by 38,014 taxpayers, and had increased from $33,344,230 in 1890 to $51,825,485 in 1891, or an advance of 55 per cent. A comparison of those owning from $5,000 to

$25,000 with those owning less would probably be still more convincing. (See Indianapolis News, January 8; Indianapolis Sentinel, January 12, 1892.)

## III.—APPRAISEMENT OF RAILROAD PROPERTY.

The comparative amount of taxes paid by corporations in this State has for some time been a fruitful source of complaint, and rightfully so. The principal means of their escape from taxation has been through the assessment. The causes which have been mentioned as operating to the advantage of the rich operate with increased power as to corporations. They are as a rule wealthy. They have large political influence, both through control of employes and through favors which they can extend to influential persons. They act altogether through agents. Many of them keep attorneys in regular employ. Their property is usually designed for special uses, and is not in general demand, besides which it is ordinarily so valuable as to find few purchasers. They are, therefore, in position to urge the "forced sale valuation" to its utmost limit of absurdity. In addition to this they have one form of property—their corporate franchise—whose value is not often easily ascertainable. It is an intangible right whose money value varies with its exclusiveness, its admission of the holder to the use of public property, and the profits of the business conducted under it. On account of the difficulty of fixing the value of franchises, the attempt to do so directly has generally been abandoned and indirect means have been adopted,

When the stock of a corporation is actually on the market and has a cash selling value recorded from day to day, a convenient and just basis for the assessment of its property is afforded. Unfortunately this state of facts does not always exist, and as to some classes of corporations seldom exists. There is also such an essential difference in the character of business of corporations, the location and comparative value of their property, and their facilities for removing from the state property accumulated in the state, that a classification of them for purposes of taxation becomes necessary. By far the most important class, as to property owned, is that of railroad companies. On account of their public character, and the almost universal handling of their stock on the open

market, the value of their property is more easily ascertained than that of any other class of corporations, and yet their property has been continually assessed in the past at from 20 to 30 per cent. of its fair cash value. This fact was repeatedly called to the attention of the old State Board of Equalization, and as often it was urged in reply that in Indiana no property was assessed at its fair cash value. This proposition could not be disputed; and when once admitted no one could say certainly what per centage of fair cash value would be a just basis. The census report of 1880 estimated that the total assessed valuation of Indiana was 48.55 per cent. of its true value, but even if this were assumed as correct it would not give an exact basis, for this estimate includes this railroad property, which is assessed at a much lower percentage of true value. It may safely be said that no injustice would have been done to the railroads if they had been assessed at 50 per cent. of their true value, and that they were unjustly exempted from taxation to whatever extent they were assessed below that figure.

This gross inequality arose from the departure from assessment at fair cash value, and this must always operate, for the reasons previously given, to the benefit of large property-owners, among whom corporations form the strongest class. The people of Indiana may properly blame themselves for the injustice done. If each individual, instead of seeking to reduce his own assessment below the legal level, had insisted on a strict enforcement of the law, the people would not have borne, as they have for years, one-half of the burdens that justly belonged to the railroads. The impediments mentioned no longer exist under the provisions of the new law. There remains no excuse for the State Board of Tax Commissioners if they do not assess railroad property at its fair cash value, or at least on an equality with other property. If it is now charged that other property in any locality, or in the entire State, is not assessed at its fair-cash value, it is made the express duty of the Board to examine the matter and assess it in accordance with the provisions of the law. (Secs. 133, 136.)*

The fair method of arriving at the true cash value of the railroad property may best be shown by illustration, and for this purpose I take the L., N. A. & C. road, commonly known

*NOTE. This does not apply to personal property, and the result is explained in Chap. 6.

as the "Monon," because it extends into a large number of the counties of the State. In this I make no unfair distinction, for the Monon was assessed by the old State Board somewhat higher than the average of railroads. The actual market value of the entire property of the road is as follows:

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| Bonded debt, at par | $12,800,000 |
| Capital stock, $5,000,000—average price Jan. 1 to June 1, 1891, $0.20 | 1,000,000 |
| Total | $13,800,000 |
| Total miles controlled | 512 |
| Average value per mile | $26,953 |

This road rents "trackage" over 27.61 miles of other roads in making its terminal connections, but this is assessed to the other roads, and of course is omitted from the estimate as any other rented property. If these additional miles were leased and controlled by the road, they should be included. It will be observed that the bonded debt is counted at par, although the bonds representing it are at a premium on the market. That premium does not affect the value of the property owned by the road. It is caused by the desirability of the bonds as an investment. The bonded debt at its face value is a mortgage on the road, which is to be paid at its face value when due, and the market value of the stock measures the fair cash value of the property over and above the mortgage. The two added together measure the total value of all the property of the road. The track owned and controlled by this road is entirely within the State of Indiana. If a part of it were outside of the State the average value for each mile would remain the same, but only the miles within the State could be assessed in Indiana.

Now, how does the value thus estimated compare with the value estimated in other ways? The total cost of the road and equipment, as reported by the company, was $15,959,478.55, or an average of $31,170 per mile of track controlled. The net earnings of the road in 1890 were $1,954.80 per mile, and this is 6 per cent. earnings on an invested capital of $32,530 per mile, 7 per cent. on $27,883 per mile, or 8 per cent. on $24,397 per mile. It may be urged with some justice that the fair cash value of a railroad is not always equal to its original cost. It may in fact be more or less. It may be urged that a railroad can fairly earn more than 7 per cent. net, but it will hardly be said that other property in Indiana is assessed for

less than its 7 per cent. earning value. Certainly it can not be claimed that the fair cash value of a railroad is not what it is daily selling for, in cash, on the open market. And yet this road was assessed in 1890 (under the names of L., N. A. & C., Bedford & Bloomfield, and Orleans, West Baden & French Lick) at $4,033,890 for all its property of every description for the 51046 miles of track reported; or in other words, at an average of $7,900 per mile, or 29 per cent. of its present actual market value.

In apportioning the value arrived at as above it would be just to estimate the value of the Bloomfield and the French Lick branches at less per mile than the main road, of which they are merely feeders, and place what is deducted from them on the main lines. The total assessment of $13,800,000 should be divided among the three divisions, and from the gross amount of each should be subtracted the amounts chargeable as "second main track," "side track," "rolling stock," and "improvements on right of way," which are required to be assessed separately. The remainder divided by the number of miles in the division will give the proper value for each mile of "main track."

It may be claimed that this method is one of arbitrary assumption. To some extent it is, or perhaps more properly a matter of judgment, and so is any method of valuation that can be adopted. It has, however, the substantial merit of reaching the actual market value of the road, and it also locates the principal property value where it belongs, in the "main track." The corporate franchise can hardly be considered of great value in Indiana. It was probably obtained for the price of making out the papers, for under our laws a railroad could be built anywhere and by anybody. The side track, rolling stock and buildings are a comparatively small part of the value of the road. The main track is what cost most and is of most value. A railroad is a chain in which each mile of main track is a link equally indispensable to its existence, and presumptively of equal money value.

There are two cases in which the method above set forth cannot properly be used. One is when a road or the stock and securities of a road are being manipulated by speculators. In such case an approximate appraisement can be reached by comparison with the original cost of the road and its earnings and market value prior to its falling into the hands of those who appear hostile to its interests. This course would have

to be pursued as to a number of the leased lines in Indiana. Another case is when no stock is issued, or for some reason the stock is not quoted, as with the Indianapolis Union. In such cases the value can be approximated from the cost of the road and equipment, taking into consideration the probable appreciation in value from the time of construction.

It will probably be urged against an assessment at fair cash value that railroads are poor, are not earning anything, and are objects of popular persecution. This plea may be taken with much allowance. There is no room for doubt that railroad property is a better paying investment than almost any legitimate business in the country. In reviewing the profits of railroads for 1883, Mr. H. V. Poor, the authoritative railroad statistician of the country, says: "The net earnings for the year were $336,911,884, a sum equaling about 9 per cent. on their cost. If the fictitious capital could be eliminated from their accounts, their success, as investments, would have no parallel." (Poor's Manual for 1884, p. 4). The year 1884 was considered a bad one for railroads, but as to it Mr. J. F. Hudson says: "In a year of great business failures and general depression, when business men were exceptionally fortunate if they were able to preserve their capital unimpaired; when the prices of agricultural products were so low that corn was burned for fuel in the West, and the market price of wheat in Europe would hardly pay the transportation charges from Kansas; when manufactories stood idle and artisans confronted starvation—in such a year as this the railway interest earned 6.7 per cent. on its actual cost, and, if its debt had been placed on a secure basis, would have yielded the shareholders 9.4 per cent. profit on their investment. Instead of railways being in distress they have been the most prosperous of the great investments of the time." (The Railways and the Republic, p. 253) It can be demonstrated mathematically that the railroads of Indiana are taking out of the State annually not less than $6,500,000 of profits to their real owners.

The law fixes no mode of ascertaining railroad values. It simply provides that the State board "shall appraise and assess all property at its true cash value, as defined by this act, according to their best knowledge and judgment." The method set forth above is substantially what has been advocated to the old board for three years past by Dr. Van Vorhis, as attorney for the commissioners of Marion county, and what was repeatedly asserted to be the intent of the law, during its pass-

age, by the *Sentinel.* It is, in fact, what was actually in contemplation by the Legislature at the time, as is witnessed by the fact that the law everywhere calls for the assessment of stocks at their fair cash value. *

The Pennsylvania special tax commission of 1887 recommended the passage of a law requiring the value of railroad property to "be determined by adding the whole amount of their funded debt at par to their entire capital stock at its actual value." In this State it was deemed wiser not to hamper the State board because the rule could not be applied in some cases. The spirit of the law, and reason and justice provide that it shall be applied where practicable, and approximated where impracticable. The State board has shown a disposition to do its whole duty thus far, and presumably can be relied upon to do an act of long-deferred justice in this matter.

## IV.—TAXATION OF INTERSTATE COMMERCE.

Aside from railway companies the principal corporations falling within the scope of the interstate commerce powers of the United States are express, telegraph, sleeping car, and, to some extent, telephone companies. For this reason these corporations may be considered together, and also for the reason that the provisions of the new law as to them form the sole basis for the charge that the last Legislature reduced the taxes of corporations on one hand while it increased the burdens of the people on the other. I fancy that nothing can be much more amusing to any person who followed the proceedings of the last Legislature than the charge that it showed undue favor to corporations. At least one-third of the members, both Republicans and Democrats, were members of farmers' organizations, and their chief aim appeared to be to "whack it to the corporations." The remaining members were more conservative, but the exigencies of political existence had impressed them with the feeling that they had better go with their more radical brethren to the extent of dealing

*The system of valuation here advocated was used by the State Board of Equalization. (Report p. 213.) The practical results are shown in Appendix 1, except that the actual values have been reduced about 30 per cent. to correspond with other values as indicated in Chap. 6.

out even-handed justice to the corporations. This produced a happy concord of policy amd propriety. There were more bills and resolutions aimed at corporations introduced in the last Legislature than in any two Legislatures that ever met in Indiana, but that is a fact of no great importance. What is important is that the Legislature accomplished some valuable results in this direction. Leaving everything else out of consideration, if the new law secures the assessment of railroad property at its fair cash value, it will be of greater benefit to the people of Indiana than all the corporation legislation of the last twenty years.

It is one thing to believe that a certain result should be accomplished, but a very different thing to say how to accomplish it. This truism has special application to the taxation of the corporations now under consideration, for how to accomplish that is probably the most puzzling problem in American taxation. Almost anyone will concede that they should be taxed on more than the value of their tangible property, but no one has yet discovered a satisfactory way of doing it under the interstate commerce laws. Everything they own in the State that can be found by the assessor is taxed like any other property, but they are transacting a large business here while they own very little property. How are you going to reach that business? If you tax it directly the United States courts will hold your law invalid as an interference with interstate commerce. Can you reach it indirectly? That is what we have been trying in Indiana for ten years past, and other states have been doing the same, but it is still doubtful whether any valid law has been enacted that will produce any considerable returns.

The Republican method of meeting the difficulty, if we may judge from the comments of the Republican press, is to increase the per cent. of taxation. At least the only objection they make to the law is that the per cent. is decreased. This mode seems plausible at first blush. Presumptively the way to increase is to increase. But this is exactly what the Legislature of 1889 tried and the results were not what had been anticipated. The history of the matter is as follows: The original law for the taxation of gross receipts of these companies was passed by the Republican Legislature of 1881 and fixed exactly the same rates as the new tax law, that is to say, 1 per cent. for express and telegraph companies, 2 per cent. for sleeping car companies and one-fourth of 1 per cent. for

telephone companies, on their respective gross receipts. (Secs. 6,352–6,355, Rev. Stats. of 1881.) This law was resisted and was held unconstitutional by the Supreme Court. (State vs. Woodruff Car Company, 114 Ind., 155.) State Auditor Carr reported the facts to the Legislature, with the following ingenious and conservative recommendation: "I would suggest that the legislature enact a law by the provisions of which sleeping and parlor car companies and fast freight lines doing business within the borders of Indiana may be properly taxed." (Auditor's Report for 1888, p. 5.)

Toward the close of the Legislature of 1889 Attorney-General Michener prepared the bills which were introduced and passed for the purpose of reaching these companies. They increased the rates of express and telegraph companies to 2 per cent., telephone companies to 1 per cent., and sleeping car companies to 10 per cent. The corporations prepared to resist these laws, and the Attorney-General compromised the matter, with the consent of Governor Hovey, for the following reasons, as stated by himself:

"The collections made from the corporations last mentioned may be regarded as clear gain for the State, for it is little less than certain that all of the corporate taxation acts of 1889 are unconstitutional. I am of this opinion because three of those acts originated in the Senate and not in the House; they all purport to be amendments of void acts, and some of them are open to the objection that it is not clear that it is the domestic privilege, and not interstate commerce, which is taxed. With reference to the express companies, it is proper to say that eminent counsel advised them that the law taxing them was unconstitutional. They professed a willingness, nevertheless, to pay a reasonable amount, but claimed that a tax of 2 per cent. on their gross receipts required them to maintain a disproportionate burden as compared with other corporations whose operating expenses were much less. On investigation I ascertained that 50 or 60 per cent. of express earnings are paid to railroad companies, and being impressed with the justice of the view advanced, and being desirous of realizing something, at least, for the State's claim, I offered, with the consent of your excellency, to compromise the demand for 1 per cent. of the gross receipts and to make a recommendation that a new bill be passed which should, so far as possible, place such corporations on an equality with other corporations. I make the recommendation suggested above, believing that

express companies are now taxed more than other corporations." (Atty.-Gen.'s report, p. 12, in Doc. Journal, 1890. Part I.)

Under these circumstances it might naturally be expected that the Governor would make some recommendation on the subject to the Legislature. In his message he gave four pages to taxation, mainly devoted to a general claim that corporations should be taxed more and farmers less. He contrasts the returns of the State tax of Indiana on railroads with that of states in which the only railroad tax is state tax, but makes no explanation that the county and local taxes on railroads in Indiana amount to about twelve times the State tax. He asserts that our State tax is higher than that of other states, when in fact there were but two states in the Union lower (Massachusetts and Vermont) and two equal to us (Connecticut and Rhode Island.) It is but just to say that he arrives at this conclusion through an arithmetical error, as appears from the figures given in the message, by which he understood the rate in the states mentioned to be one-tenth of their actual rate. At the conclusion of this information he says: "Gentlemen, the problem is in your hands, and I trust you may find a way to solve it by just legislation." This is the condition in which the question came to the Legislature, and these were the suggestions from the officers who were supposed to advise the Legislature of the needs of the State.

So far as I can learn the Legislature did not pay a great deal of attention to these four classes of corporations. The difficulties in the way of fair taxation appeared insuperable, and the revenue derived from them was of practically little importance. The total amount received from them all, in the ten years that the law was in force prior to 1891, was $11,631.44, or an average of $1,163 per year. In considering the problem of raising an annual revenue of $2,000,000 a Legislature could not profitably devote many days to so small an item. To some members the only feasible thing appeared to be to accept the Attorney General's advice and take what these companies were willing to pay to avoid litigation. Others thought that an attempt should be made to reach the business begun within and ending without the State, or beginning without and ending within the State, which the laws of 1889, prepared by the Attorney General, omitted altogether. This could do no harm, because if the courts held it invalid they could still hold the law valid as to business beginning and

ending within the State. The law was accordingly drawn in that form. The result of it, so far as the amount of money collected is concerned, will depend entirely on the decision of the courts, for some of the corporations, who are said by the Republican press to be favored by it, have announced their intention to resist its enforcement. If it is held valid the State will collect much more than it ever has collected before. If not; we simply drop back to the basis on which the Governor and Attorney-General compromised in 1890.

This is the history of the whole matter, and if there is any political capital in it those who can find it are welcome to it. It would, perhaps, be more advantageous to the State, however, to consider the matter as a business question. As to taxation we might profitably reverse a celebrated aphorism and say, the fewer politics you have in these men the better. Personally, I do not believe that any law has been passed in this State, or any other state, for taxing the gross receipts of these corporations, that is valid except as to the business beginning and ending within the state; and that is so small, whether considered with reference to the amount of taxes paid or the amount that ought to be paid, that it must always be unsatisfactory to every one but the companies. The question then arises, What are you going to do about it? In answer I submit the following questions: If it is right to tax these corporations on their business done wholly within the State, is it not wrong for them to escape taxation on the immensely more important portion of their business that is classified as interstate commerce? To this I think every one will answer, yes. Can interstate commerce be made taxable? Yes. Who can do it? Congress. Why has not Congress done so long ago? Because the people did not demand it.*

This is the easy method of escape from the whole difficulty, and there is an excellent precedent for it. The national banks were just as completely protected from taxation as these corporations, by the fact that they were "instrumentalities of government" under the celebrated decision of Judge Marshall. (McCullough vs. Maryland, 4 Wheaton, 451.) Congress, however, recognized the injustice of permitting them to go untaxed, and gave the States power to tax them, providing that such taxation "shall not be at a greater rate than is assessed

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*NOTE. The Democratic State platform demands that Indiana congressmen endeavor to procure such a law.

upon other moneyed capital in the hands of individual citizens of such State." (Rev. Stats., Sec. 5,219.) There is no reason why it should not be provided by law that persons or corporations engaged in interstate commerce may be taxed on their gross receipts, as those engaged in domestic commerce or transportation are taxed, proportionately to the amount of such business transacted within the boundaries of the state. If there is any fear of injustice to the corporations a limit of the percentage allowable may be fixed by law.

If the people of Indiana, without regard to party, will let their representatives know that they want this done, it will be done, for other states have had quite as much difficulty over this matter as we have had, and will be equally pleased to reach a satisfactory settlement. What is the use of cudgeling your brains for a method of evading a law when you can have the law changed? Why waste time trying to climb over an insuperable obstacle when you can have it removed? If we do not adopt this course we should at least quit abusing one another for not doing something that cannot be done.

## V.—TAXATION OF MONEY.

The provisions of the old law as to the taxation of banks are not materially changed by the new law, except so far as the extensive powers of investigation conferred on tax officials by Secs. 34, 114 and 129 are applicable to banks. The resistance of the bankers to the enforcement of these provisions and the relegation of the matter to the courts are occurrences of such recent date that any recital of them would be superfluous. The courts will either sustain the officials or the bankers. If the latter, it will be on the ground that the new law does not confer the power claimed by the officials, or that the Constitution will not permit the exercise of such powers, or both. In any event the struggle over this question will be renewed in the next Legislature. If the people desire to sustain the officials in the position they have taken it will be necessary for them to elect legislators who can not be controlled by the bankers. It may be taken as assured that the bankers will endeavor to secure the election of men they can control, and they have a great deal of power when the undertake anything of that kind.

The position of the bankers is worthy of serious consideration. Their claim, as repeatedly made, and published in the daily press, is that a large amount of the money deposited in the banks is not returned for taxation by depositors; that it will be withdrawn if they disclose the names of the depositors, and that serious injury will result to business generally from their so doing. The first proposition is one that has been generally believed for some time, but it is probable that even the bankers will concede that they have not underrated the amount nor the evils that will result from its disclosure. It is commonly known in business circles that under the old law there was always a shrinkage of deposits during the two months preceding April 1 of each year. This represented the deposits of those whose consciences were too tender for perjury, but tough enough to allow evading the law in some other way. The bankers are doubtless right in their assertion that there are many others whose moral sensibilities are not so delicate, and who would, if detected now, resort to some other mode of concealment. If the courts sustain the officials, how will you reach that money hereafter? If the courts sustain the bankers, how will you reach that money hereafter? You are confronted by the same problem in either event.

In honesty and justice, it is not consistent with the dignity of the State of Indiana that any class of property should be permitted to escape taxation through deficiency of the law, if there is any possible remedy. If the effect of our present system is, as the bankers claim and every one concedes, to throw the burden of taxation on honest taxpayers and exempt the dishonest, we ought to abandon the system and try some other. It cannot be successfully disputed that our system is unjust in its practical workings, or that our banking laws are crude and unwise. They have always been so, but we have grown accustomed to them and have been reconciled to them, as we have to many other evils in the past. Now, for the first time, the intrinsic defects of the system have been forcibly brought to the attention of the public by the controversy between the bankers and the tax commissioners. Now, if ever, the public mind is prepared for radical reform, as it was prepared for the abandonment of our old election system by the wholesale bribery of 1888.

From a governmental standpoint the only sensible way of taxing bank deposits is to tax them to the bank and let the depositors go. The banks are the legal owners of the money

deposited with them (except special deposits), and receive the benefits of all profits accruing from it, except what they pay in interest to the time depositors. This money is all in 351 banks, where it can be easily and effectively reached. The State deliberately throws away this opportunity, and undertakes to reach the same money as credits in the hands of a half million depositors. Of course it fails. Is there any business judgment or statesmanship in such a course? Not a particle. If the people were awake to the advantages of conducting government on scientific economic principles, such a system would not be tolerated for a moment. If you suggest the remedy mentioned to the banker he will probably tell you that it is unjust and preposterous; it would ruin the banking business; no person who understands banking would dream of such a thing. At least that is what they say to me. But let us consider these objections.

If this tax actually fell on the banks it would be no great burden. With property assessed at its fair cash value, the average taxation, for all State and local purposes, in Indiana will not be over 1 per cent. It should not exceed 1½ per cent. anywhere, unless there is some special tax levied. We all know that most banks pay from 2½ to 4 per cent. interest on six months' deposits. If they did not make more than that amount out of the money thus deposited, they would not pay this interest. But on ordinary deposits they pay no interest at all, and some banks receive no other deposits. It is true that if a bank had but one depositor it could not afford to pay taxes on the deposit, because he could withdraw it at any time, but neither could it do business. The aggregate deposits form a comparatively fixed sum, which varies only with causes that affect the general business world. The principle is similar to that on which insurance is based. If only one man were insured, the company would be ruined if he died before his premiums and their earnings equaled his insurance, but with a large number of risks the profits of the business are absolutely safe. So the average deposits of a bank constitute a fund which it uses without interest. Do you believe it could not, without injury, pay 1 per cent. interest on that sum? Do you believe there is a bank in the State that would not gladly double its deposits at 1 per cent. interest?

But as a matter of fact, the banks would not pay the tax at all. It is a generally understood principle that the direct payer of a tax always compensates himself when he can by

adding to the price for sale or use of the article taxed. The most familiar application of this is in a tariff on imports or exports. If the importers of this country actually paid the $220,000,000 annually which they put into the United States Treasury, without reimbursing themselves by adding to the price of the goods imported, the burden would be intolerable. There would be no importation of goods. But by adding the tax to the price of the goods, they reimburse themselves at the expense of the consumer. The burden being thus distributed it is not much felt by the consumer, and, if he believes in protection, he thinks he is enriching himself by paying it. This shifting of the burden of taxation is known technically as repercussion of taxes. It should always be considered in framing a tax law, and as Dr. Cossa truly says: "A good system of taxation should take care, as far as possible, that there should be only that repercussion that is desired and intended, and no other. For repercussion is often very hurtful, because it frequently is affected by concealed means (e. g., by deteriorating or adulterating the goods sold)." [Taxation, its Principles and Methods, p. 63.]

In nothing is repercussion more complete than in the taxation of money, and I know of no more satisfactory evidence of this than the testimony of bankers. A dozen years ago the national bankers were protesting, and with some reason, on account of high taxation, they being taxed by the States as other moneyed capital, and also specially taxed by the national government at a rate estimated to be 2 95 per cent. on their capital. I will quote some of their statements made at that time. R. H. Thurman, cashier of the First National Bank of Troy, N. Y., said:

> And now I ask, who has paid this large sum for the use of money? In the first instance, the customers of the bank, the merchant, the manufacturer, the builder, the farmer, the borrower of whatever trade or occupation. * * * Whatever tax, therefore, is levied upon the capital, circulation and deposits of a bank is paid by the borrowers of money, and is a tax upon trade, industry and business. [Proceedings American Bankers' Association, 1877, p. 102.]

W. E. Gould, cashier of the First National Bank of Portland, Me., said:

> Money, like water, finds its level. The people will suffer in the end more than banks. We can never be compelled to lend money without security, or upon a vagabond name, or below what money is worth. And if the banks are squeezed with taxes, as a rule, the people will pay the taxes in the end. [Proceedings American Bankers' Association, 1878, p. 117.]

Mr. John Nollen, cashier of the Pella National Bank, Iowa, said :

> It is time the public mind should be disabused in this regard. However pleasant it may be to shift a large proportion of their taxes on their depositories of ready cash, the public should understand that they cannot "eat their cake and have it." A hundred or a thousand men may clique together and cause their taxes to be paid out of their common fund, each individual supposing that he thus evades the payment of his particular share ; but sooner or later a division will demonstrate the falsity of the preposterous assumption. [Proceedings American Bankers' Association, 1880, p. 82.]

Quotations to the same effect might be multiplied, but they are unnecessary. Throughout the discussion of the matter, which continued for several years, no banker disputed this proposition, and it cannot be successfully controverted, because it is true. But if true, why tax money at all ? That is another question ; but if you do tax money you should tax it so that there is not a discrimination against the honest taxpayer. Moreover, it must be borne in mind that it makes no difference in whose hands the money is taxed so far as the ultimate results on the business of the community are concerned. The repercussion will occur and will reach the same points in any case. There is, however, one feature to be considered here. Evidently the entire immediate repercussion will not fall on the borrower. Part of it will fall on the depositor, who now receives interest on his deposit, for the banker will not pay the same rate of interest if he pays the taxes. To the taxpayer who returns his money on deposit truly this will make no difference. If he receives 1 per cent. less interest and pays 1 per cent. less taxes he is not affected. The tax-dodger, on the other hand, will be made to pay what is justly due from him.

But will not this cause a withdrawal of deposits from banks ? It possibly may to some extent, but this will be much more than compensated by increased deposits from other sources. Not only much of the money that is "hid in stockings," but also much that is concealed in safety deposit vaults, would be deposited in banks if it were known that the depositor was exempt from taxation on money in bank. One of the chief objects of such concealment would be removed, and large amounts that ought to be in circulation would thus be put in circulation. The exemption of the depositor is no injustice so long as the bank pays the taxes. There have been laws that have taxed both bank and depositor, and courts have

upheld them (7 Cal., 35; 20 Kan., 596), but the injustice of such a rule is too apparent to need consideration. As the amount properly taxable is an average amount, it should not be determined by the deposits on any one day, but by the actual average. The system of the old United States law, which taxed the monthly average, was equitable and satisfactory.

It would be foreign to the subject to discuss a reform of our State banking laws here. They could be much improved by additional safeguards, such as are provided in the National Bank law. I will offer one illustration of the looseness of the present system that has a direct bearing on taxation. The firm of Dwiggins, Starbuck & Co. does business in Chicago. Its stated capital is $350,000. It operates more than a dozen banks in Indiana. These banks report no capital here. They send all their spare funds to Chicago, or at least do not report them for taxation here. Their entire taxable property in some cases is reported at less than 5 per cent. of either their deposits or their loans. The reader may draw his own conclusions. This sort of business is unjust both to the taxpayers and to our banks, which, of course compete at a disadvantage if they return their property for taxation fairly.

There is one other matter to be noticed in this connection. It is absolutely impossible to maintain an equitable system of taxation in this or any other State so long as the "greenback" currency is not taxable. It is the common refuge of the tax-dodger. I believe it can be safely said that the amount of "greenbacks" listed in this State on tax returns is equal to one-third of the entire issue of greenbacks, and that the amount claimed as exempt for that reason in the United States is equal to ten times the entire volume of greenbacks in existence. It is simply an outrage on the taxpayers of the whole country that Congress permits this portion of our currency to remain non-taxable. There is no excuse for it whatever. When the greenbacks were originally issued the exemption from taxation of course aided in keeping up their value, but it was not certain even then that Congress intended them to be untaxed. The Supreme Court, however, held that they were "U. S. securities," and therefore within the exemption law. (7 Wall., 26.) When the National Government resumed specie payments there remained no reason for their exemption, and they should have been made taxable. At the time the late Senator McDonald, whose sound financial views gave him a national reputation, twice introduced bills in the Na-

tional Senate to subject greenbacks to local taxation. (Congressional Record, 45th Cong., 3d sess., p. 341 ; 46th Cong., 1st sess., p. 16.) Both bills were smothered in committee, and presumably by the influence of the moneyed capital of the country. If the honest taxpayers of this country were alive to their interests they would demand that the greenback currency be made taxable at once. *

I am aware that the suggestions made above would mean a very radical reform, but that is what is needed. I know they are calculated to startle the reader on first presentation, but I believe that, like Mr. Lincoln's rat-hole, they will "bear looking into." After long consideration I believe they are just and right. I disclaim any hostility to banks or bankers more than is necessarily involved in advocating a fair tax law. I have friends among the bankers of Indiana whose friendship I prize highly, and who I believe are willing to be just to the community as well as to themselves. I advocate nothing more than that.

## VI.—THE EQUALIZATION REACHED.

As I have heretofore shown, the chief evil of our old tax system was in the failure to secure an enforcement of the law as to assessment at fair cash value, and the necessary result of inequality between counties of the State, townships of each county and individuals of each township. The rectification of this evil was the chief purpose of the new law. To that end every step in appraisement was guarded as carefully as possible. The taxpayer was required in addition to the former oath to swear that his valuation of his property was at "the usual selling price * * * at private sale, and not at forced or auction sale." (Sec. 53.) The assessor was no longer permitted to accept the taxpayer's valuation as under the old law (R. S., Sec. 6,330), but was required to determine the value, with privilege of examining "the party *or any other person*" under oath. (Sec. 48.) If a taxpayer refused to make a sworn statement the assessor was required to

*NOTE. The Democratic State platform demands this reform. Several efforts have been made to secure it since Senator McDonald's. A bill for this purpose, introduced by Senator George, (Senate bill 1.699), is now pending in Congress, and has received the support of the Indiana Senators.

examine under oath any person whom he believed to have knowledge of the facts and fix any value he deemed proper (Sec. 51), and to this a penalty of 50 per cent. was added. (Sec. 56.) No return could be accepted without oath, and if the party claimed to have no property of any kind specified in the list he was required to write the word "none" after such specification. (Sec. 53.)

To insure system and equality in the original assessment, the office of county assessor was created, and this officer was required to make examination of the public records and revise the work of the township assessors, as well as to exercise general supervision of the work. (Sec. 113.) The old County Board of Equalization, which consisted of the County Commissioners and four free holders appointed by the Judge of the Circuit Court, was replaced by a Board of Review, consisting of the County Assessor, Auditor and Treasurer. (Sec. 114.) The old State Board of Equalization, which consisted of the Governor, Lieutenant Governor, Auditor, Secretary, Treasurer and Attorney General, was replaced by a board consisting of the Governor, Auditor and Secretary, with two members appointed by the Governor, of different political parties, who are required to devote their entire attention to the business of assessment and are paid salaries of $2,000 per year. (Secs. 117–122.) All officials are put under ironclad oaths to assess and equalize at fair cash value, and are made subject to fine and imprisonment for either under-valuation or over-valuation. (Sec. 256.) They are all given full power to examine the books and papers of any person or corporation, and the boards are given power to fine and imprison for contempt any person who refuses to answer or exhibit books and papers. No officer or board is bound by the assessment of any inferior officer or board, but is required to assess at true cash value throughout. The former absurd restrictions on the State Board are abolished and it is required, if necessary, to increase the assessed value of the entire State to the point required by the law.

In brief synopsis these are the provisions of the new law to secure equal assessment, which are elaborated with great care in the body of the act. It is evident that they put assessment on a much better and more business-like basis than it was before, and is it difficult to see how the Legislature could have gone much further in this direction. Counteracting the effect of these provisions since the passage of the law there

have been two strong forces, (1) individual and local interest and (2) the clamor of a partisan press. The first is a constant force in all tax systems. It is always with us, and its effects are easily understood. No man desires to pay more than his just proportion of taxes, and none will be apt to resolve any doubts against his own interests. If a taxpayer thinks that others are evading the law, and he will always be safe in thinking so, he is tempted to evade it also in order to put himself on a basis of equality. We notice this most, perhaps, in the proportion of assessments between various counties. The State rate is fixed, and any county escapes taxation in exactly the proportion that it is assessed below other counties. The mode is so simple, so well understood, and has been so generally practiced in the past that it is very difficult to get rid of it, if indeed that is possible.

The second counteracting force is largely peculiar to the present situation, and will probably not be in operation hereafter. Certainly it can never have as great weight again as it has had in the late assessments. As soon as the Legislature adjourned the Republican press began its attacks on the tax law, on the theory that it had "increased the taxes of the people and decreased the taxes of the corporations." The alleged mode of increasing the taxes was the increase of assessment. The temporary success of this system of attack was almost without parallel in the history of political hoaxes. In some parts of the State a large portion of the people became almost frenzied. Without reading the law, much less understanding it (the furor reached its height before the law was published), they proceeded to condemn it. Even now there are hundreds of persons who believe that their taxes have been increased exactly as the assessment has been increased, and many will, in all probability, continue to believe this until they pay their taxes. The great mass of the people now understand that the amount paid will be fixed by the local levies, and that the resort to fair cash valuation has had the effect of increasing the assessed value of corporate property much more than that of individuals. The assessments were made, however, while the delusion was strong, and, notwithstanding the efforts of the officials who understood and desired to enforce the law, there was a widespread disregard of the provisions of the new law, which has occasioned a great deal of revision and correction by the Reviewing Boards.

I do not complain of this partisan clamor. Under our prevailing theories it would be childish to object to anything that savors of legitimacy in political warfare. I mention it as an important factor in our problem of taxation, in the solution of the question, why has not the law been enforced? For I believe it has not been enforced, and that under the circumstances it was impossible to enforce it in the present year. I do not understand how any person who has examined the subject can say that property in any county in the State is assessed at fair cash value. The best basis for estimate now available is the average value of lands and improvements as fixed by the State Board of Tax Commissioners. That Board, in order to equalize counties, found it necessary to order in thirteen counties an increase of 5 per cent., in seven counties an increase of 10 per cent., in one county an increase of 40 per cent., in five counties a decrease of 5 per cent., in seven counties a decrease of 10 per cent., and in one county a decrease of 20 per cent. In addition to these there were four counties in which changes were ordered as to parts of the counties, the remainder standing as reported. In other words, there were thirty-eight counties in which the law had not been enforced, in the opinion of the State Board, not considering individual appraisements, as to which there were changes made in nearly every county in the State.

If the work of the State Board is correct there has been an immense stride made toward the equalization of property, as may be seen from comparing the average value per acre of the counties in 1890 and 1891. The least change was in Brown county, which the State Board left as valued by the County Board—the advance being from $5.19 to $5.23 average value per acre, or less than 1 per cent. The greatest change was in Newton county, which was ordered reduced 5 per cent.—the advance being from $7.42 so $16.02, or 115 per cent. Between these extremes there are as many variations of increase as there are counties, and as to most of them there is no special reason for the change except that they were heretofore valued too low. (Of course the counties in the gas belt should generally have increased more than the rest.) Accepting this basis as correct, Brown county has been paying more than twice as much State tax as Newton, on the same amount of property, and more than any other county in proportion to the increase shown as to each.

But can the work of the State Board be accepted as correct?

As to equalization it may be. The work was more intelligently prosecuted, and with better opportunity for reaching the truth, than ever before. Absolute perfection in such work is impossible, but it is probable that the result is approximately correct—and certainly it is much nearer correct than it has ever been before. But while there has been a substantial equalization, there is no evidence that the State is equalized at fair cash value. I submit that it is simply incredible that the local authorities of one county in this State assessed the property in the county one-fourth too high, seven counties one-ninth too high, and five counties one-nineteenth too high, when the standard is "fair cash value." What motive could have actuated them? What object could these officers have in reporting the property of their neighbors and themselves for taxation at more than it was fairly worth? It would be contrary to every motive by which men are actuated. In my opinion the truth is that no county in the State was assessed at "fair cash value" except, possibly, Floyd county (in which the 20 per cent. reduction was ordered), and none is on that basis now. There is a very fair equalization, but it is at about 70 per cent. of fair cash value.

But if this be true, why should not the entire State have been raised to the Floyd county level? There was an excellent reason. Presumably the personal property in each county was assessed on the same basis as the realty, but the State Board can not, under Section 136, increase the value of the personalty for the purpose of equalizing between counties. In every county, therefore, where the assessment is raised, real estate will bear just so much more of the burden of taxes than personalty. With this in view, the Board probably equalized on the basis which would make the least change, and that basis is in the neighborhood of 70 per cent. of fair cash value. The State Board of Illinois, operating under a statute similar to ours, has just made a similar decision. After investigation they decided that the assessment of the State had been made at about 25 per cent. of "fair cash valuation," and although the law required them to assess railroads at fair cash value, they assessed them at the same rate. And this was just, because the most important thing in taxation is equality, and the very essence of the constitutional provisions concerning it is the preservation of equality. When you are obliged either to violate the principles of justice and the clear intent of the Constitution and the law, or to violate the letter

of the law, it is best that the latter should be sacrificed.

And yet, although the State Board has probably done the best it could under the circumstances, and has attained something like justice, it is very unfortunate that an actual cash valuation was not reached. Of the two forces opposing the enforcement of the law that have been mentioned, one will pass away and the other will grow more formidable with time. As the people come to understand the working of the law, and to appreciate the fact that it is a protection to the masses, it will grow in popularity, and press criticism will cease or become of no effect. On the other hand, personal and local interest will remain, and, as public attention is diverted to other subjects, will make greater inroads on the equality that has been reached. Something must be done to neutralize this force or it will in a few years destroy equality of valuation. The principle of assessment at fair cash valuation is worth more to the honest taxpayer, and especially to the man of small property, than all the rest of this law or any other law. When you leave it you are practically without a guide. Assessment becomes like the old Kentucky method of weighing hogs—put the hog in one scale, and in the other enough bowlders to balance it; then guess how much the bowlders weigh. It is no exaggeration to say that if a county should succeed in getting its appraisements only half as high as that of the other counties, its small taxpayers would lose more by the increase of their portion of local taxes than they would gain by being released from half their just share of State taxes.

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## VII.—SEPARATION OF THE SOURCES OF STATE AND LOCAL REVENUES.

In considering what necessary means may be taken to retain the equality in assessment we have reached under the new tax law, and to add to it hereafter, it will be well to keep in mind the fundamental principle of modern reform legislation. It is always urged by the enemies of reform that you cannot make men honest by law. That is true; but you can sometimes prevent them from reaping the fruits of dishonesty. There is certainly nothing to be gained by framing laws so that the citizen will be tempted to violate them. After centuries of experience, the best mode of preventing wrong-

doing that has been discovered is to take away, as far as possible, the motive for wrong-doing, which ordinarily consists of the profit or advantage derived from it. The Australian ballot law is based on this principle. You can not prevent one man from giving another money to vote in a certain way, but you can prevent him from knowing whether the other man carries out his contract. So as to the school-book law; you could not compel the publishers not to ask extortionate prices for the books, but you could cut them off from a market so far as the public schools were concerned, and the result was that they speedily reduced their prices to the point at which they formerly declared they could not afford to sell. The question now is, Can this principle in some way be applied to the tax law?

In part, at least, it can. As we have seen, the greatest source of inequality lies in the effort of various municipalities to escape their just proportion of State taxes. As the State levy is fixed, they can accomplish this by reducing their appraisement below fair cash value, and at the same time raise needed funds for local purposes by increasing the local levies. It is evident that, to avoid this, either the State levy must be made variable or the sources of State and municipal revenue must be entirely separated; and it is of the highest importance to the honest taxpayer that it should be avoided, because every departure from "fair cash valuation" is certain to recoil on him. The first method would probably be unconstitutional, but, under a proper amendment, might be effected by abolishing the State tax and requiring each county to pay to the State a certain percentage of its revenue from taxation—for example, one-tenth—for State revenue. This would be in effect a tax on the income of the counties, and the local taxation would have to be increased one-ninth above the local necessities to meet the demands of the State. In 1889 the average total levy for all purposes was $1.68 on $100. Of this amount the State levy for revenue was 12 cents, and for school purposes 16½ cents. The school tax, excepting the ½ cent which goes to the university, is redistributed to the counties, and the State government has nothing to do with it except as distributing agent. The various counties show great departures from the average mentioned, ranging from about $1 in Putnam county to more than $2 in several other counties. This variation is largely due to the rate of assessment, Putnam county, for instance, having undoubtedly been assessed higher than the aver-

age under the old system. This variation will decrease under the new system, and the several counties will approach much more nearly to the common average. Of course there are other causes of variation, such as a large percentage of railroad property, which makes the average in Laporte County only $1.11, or the number and size of towns and cities, which always cause an increase of the total levy, notwithstanding the addition they make to the total amount of taxable property.

There would be several advantages from the adoption of this system of deriving State revenues from a percentage contribution of county revenues. In the first place it would do away entirely with the temptation to undervalue for the purpose of escaping State taxes. There would remain no possible escape from State taxes except a decrease of local taxes, and this is usually an end devoutly to be wished for. It would put a premium on economy in local government, and yet this premium would not be large enough to beget miserly economy. In counties whose levies are above the average the burden of State taxes would of course be greater than in those below the average; but there is no injustice in that, because the levies will be higher in the wealthier and more populous counties, and those counties derive the most benefit from the institutions maintained by the State. On the other hand it may be urged that this would be a tax on progress, because every addition to county expenses would make an addition to State taxes. This is true, but for that very reason it would restrict extravagance in public expenditures. If, however, this objection should seem important, it could easily be avoided by exempting from the State's percentage all special taxes collected for new public buildings, or to meet debts created for such purpose.

The other system for avoiding undervaluation by counties is the separation of the sources of State and county revenues; that is to say, by setting apart certain classes of property to be taxed for State purposes, abolishing all local taxes on such property, and abolishing State taxes on all other property. An effort was made to effect this in the last Legislature by setting aside railroad property for State taxation, but it failed. The plan then proposed, by what was commonly known as the Oppenheim bill (H. B. 487), was that railroads should be assessed and taxed exactly as at present, but that the money paid by them should be set apart by the County Treasurer and

paid into the State Treasury, the State levy being abolished. Against this plan there were three arguments made that were worthy of consideration. The first was that it was unconstitutional, and as to this lawyers differed, though the reason of the matter would seem to be that the use to which money is put after it is collected does not affect the equality or uniformity of the taxation, which is not interfered with in any other respect. The second argument was that Brown, Ohio and Switzerland counties would be exempted from State taxation, because they had no railroads, and this is true, but there are necessarily some inequalities in any system of taxation. The third was that the municipalities in which railroads were located had given public aid to secure the location, in consideration of taxes thereafter to be paid by the railroads, and this plan would take away all that compensation. This is partially true, but in many cases no such aid was given, and in all cases there was an increase in value of lands, on account of the location of the railroad, which would ordinarily afford adequate compensation for all aid given. Moreover, the bill provided for a return of a portion of the taxes to any county in which the railroad tax exceeded the amount already paid for State tax.

There were numerous other arguments offered, but none other worthy of a moment's consideration by any one of ordinary intelligence. I think any fair-minded person will concede that there would be some injustice in taking from the local governments all the proceeds of railroad taxation, but on the other hand there is an injustice in permitting them to have all the advantages of it. The railroad companies derive their existence from the State. Their tracks are laid where convenience dictates in reaching certain terminal points. The fact that they happen to cross the imaginary lines that bound a county is not a sufficient reason for giving the people of that county a monopoly of taxation of their franchises as well as their tangible property. There would certainly be no injustice in a division of the taxes, giving the State one-half, and possibly if this were done a system could be devised by which an adequate State revenue could be raised without a recourse to a general property tax. There would be no injustice in turning banks or saloons over for State taxation, and these, with the present special corporation taxes, and perhaps a collateral inheritance tax, would afford sufficient revenue for the current expenses of the State. It should be remembered

that no change of this kind will make any material change in the amount of taxes paid by any one. It is simply a shifting of a burden from one shoulder to another, so that it may be carried more safely and more comfortably. No one advocated the passage of the Oppenheim bill more earnestly than myself, and no one was more disgusted at its defeat, but I concede freely that it would not have increased the present burdens of the railroads to have passed it, and it would not have decreased the burdens of taxes on the people more than the present system. That was not the object of the measure. It was designed to aid in securing equality of assessment and in maintaining that equality after it had been secured. The railroads would not have paid a cent more of taxes if it had passed than they will under the present law.

While the Legislature failed to pass this bill it recognized the necessity of some measure that would remove the temptation to undervaluation by counties. This recognition was given in two forms. The first was a joint resolution reciting a belief that no equitable assessment could be had "until the State and local taxes are separated and each assessed and collected independently of the other," and directing the State Tax Commissioners to prepare and present to the next Legislature a bill for this purpose. (Acts, p. 483.) The second was a joint resolution for an amendment to the Constitution, providing "that corporations may be taxed upon their net or gross earnings in such manner as may be prescribed by law." (Acts, p. 484.) The occasion for this proposed amendment is that such taxation would probably be in violation of our Constitutional requirements of uniformity and equality of taxation, and the probability is that it would be found desirable to resort to an earnings tax in order to secure a separation of the sources of State and local revenues. It is very questionable, however, whether there would be any necessity of resorting to such a tax, and it certainly would not be wise to do so in the case of railroads. We have found a system under which railroads can be assessed as other property, and public sentiment ought to demand its retention. There is no danger of any material reduction of railroad appraisements hereafter. The method by which these corporations will seek to escape will be the adoption of some new system of taxation, and that system will be a tax on gross or net receipts.

It is safe to say that there is not such a system in any State in the country that does not operate to the interest of railroad

companies. Pennsylvania has had such a system for years, but the Pennsylvania Tax Commission of 1889 reports that while other property has been paying from $1.20 to $1.50 on each $100 of value, the railroads have been paying only 25 cents. Several of the states tax railroads on gross receipts in addition to the general tax on property value, and in some states there is added the future complication of a stock tax, or a dividend tax, or both. The evils of any of these systems are two-fold, for they remove railroad taxation from the basis of taxation of other property to a basis that admits of jugglery and misrepresentation, and they make assessment depend too largely on the bookkeeping of the companies. If a system is simple, easily understood and not different from that applied to other property, the people cannot be deceived as to railroad taxation; but as you complicate and obscure the system, you increase the probability of favoritism to railroads and safety of the tax officials in favoritism. Moreover, a fixed rule of ascertaining values cannot be applied to the railroads any more satisfactorily than to other property. Any rule imaginable could be taken advantage of, and the only safe plan is to allow officials to select their methods of determining values, and rely on public sentiment to make them do their duty, just as we do in assessing other property. Certainly no other State has found any system that would produce such equitable results as the new tax law of Indiana has secured for the present year, and it would be an act of folly to abandon a system that is clearly the best in existence. Of course, a part of the taxes now paid by railroads to the counties could be turned over to the State without interfering with our present system of assessment and taxation of railroad property.

But whatever the system adopted, it is evident that some remedy must be found for the defect mentioned. It is the one weak spot in the new law that threatens the existence of the system. We got past it this year after a great deal of unseemly wrangling about "relative values" of different counties, and some vigorous alterations of county returns by the State Tax Commissioners, but there is no certainty of doing so hereafter. Indeed, we are confronted by a practical certainty that counties which imagine themselves overvalued —which, as they style it, have had "a penalty put on their honesty"—will resort to undervaluation at the next assessment. The burden of rectifying such intentional wrong-doing should not be needlessly put on the State Board. The local Boards

are more competent to fix local values, and doubtless would assess fairly if this temptation were removed. It would be well, however, for the State Board to retain supervisory and corrective power to assure equality of individual valuation, which, as we have seen, can be attained only by rigid adherence to fair cash valuation.

## VIII.—EXEMPTION OF MORTGAGED PROPERTY.

It has been urged that the new tax law is unjust and inadequate because it makes no change in the law concerning the taxation of mortgages, and this will probably have as much weight as any sin of omission charged against the law, though it is questionable whether it should have such weight. The question of mortgage taxation is a very perplexing one. It has been settled by a great many people, but unfortunately it has been settled in so many different ways that the anxious inquirer is very likely to adopt the conclusion of Mr. Horace White, "that the elements of the problem are too many and too variable for dogmatic treatment." The ordinary illustration of the argument against taxation of mortgages is exemplified by the following quotation from the Maine Tax Commission's report:

> A has a piece of land worth $1,000; B has nothing, but, wishing to buy A's land, A conveys it to him and receives B's note for $1,000 secured by a mortgage of the land. Under our system the land is taxable to B and the mortgage note to A, thus taxing $2,000 in value where but $1,000 exists.

On its face this appears to be a simple statement of fact which can not be controverted, but as ordinarily elaborated it will be found to contain four elements of falsehood which should always be borne in mind when this subject is considered, viz:

1. This is said to be duplicate taxation, but it is not so. "Duplicate taxation" has a well settled meaning and is not lawful, but this taxation is lawful, as is universally maintained by the courts (Cooley on Taxation, pp. 219–226) In legal contemplation the land is property, and the note, or debt, is property. The effect of the credit system is that it enables a man to materialize and capitalize his presumptive future resources. In this case B, who has nothing, is made the

owner of a piece of land. True he owes for it, but he has the legal ownership and use of it. He takes the ownership subject to the burden of interest and taxes, as well as final payment of the debt, because he expects to profit more than the total amount of burden by owning it. A sells because he expects B to pay the debt with interest and taxes. In reality there are $2,000 of property—$1,000 of land and $1,000 of B's capitalized credit—but before the trade the law took no cognizance of B's earning capacity as property.

2. It is inferred that this situation is forced on the parties by the law, but it is not. If they had so desired, B might have taken a lease on the land at a rental equal to the interest, with a privilege of purchase at the termination of the lease, or sooner. In that case only $1,000 of property would have been taxed, B's credit not being capitalized, and he being a lessee instead of an owner. This form of contract is very frequently resorted to in some parts of the country, even in cases of loans, for which the borrower deeds the land to the lender, who leases it back with power to purchase. If a man prefers to capitalize his credit and make it taxable it is his own lookout.

3. It is inferred that the law does not make any attempt to avoid the taxation of mortgage debt, which is not true. If B owns any annuities, bonds, notes, accounts, claims, deposits, or has anything due him in any shape, he is permitted to subtract from such property, in making his tax list, the amount of his mortgage indebtedness. If A owes anything in any shape he is permitted to deduct it from the amount of his mortgage note. (Sec. 53.) Between the two the amount of the debt usually disappears entirely and only the land is taxed—indeed, the injustice of the law is probably to other taxpayers, for the exemption for claimed indebtedness is a common mode of tax-dodging. The new law adds to the property, from which debts may be deducted, annuities, bonds and deposits (compare R. S. 1881, Sec. 6,336, with Sec. 53 of Tax Law), and, in my opinion, this was an unwise concession to an unjustifiable clamor.

4. It is inferred that there is some distinction between mortgage debt and other debt, which is not true. Indeed, the reference to this question as mortgage taxation is misleading. The mortgage has nothing whatever to do with it. To illustrate this, let us draw a parallel to our original illustration: A has $1,000 in money, B has nothing, but wishing to go into

business borrows A's $1,000 and gives his note for it (with or without security); B then buys goods with the $1,000 and begins business. Under our system the goods are taxable to B and the note to A, thus taxing $2,000 in value when but $1,000 exists. The same reasoning will apply to any kind of credit. The security for the debt has not the slightest effect on the merits of the question and has been introduced chiefly through demagogues who desire to make the mortgage debtors of the country believe they are in some way treated worse than other people. Properly the question should take one of two forms; either, should a taxpayer be allowed to subtract his debts from the value of his taxable property? or, should credits be taxed at all?

The first form of the question is the one in which it is usually put by the mortgage debtor, and an affirmative answer is expected. He contends that he should pay taxes on only so much of his property as he has paid for. If the law permitted the deduction of debts from the value of real and personal property, the first effect would be to exempt railroads from taxation, for some of them are mortgaged to nearly their full value now, and all of them could be put in that condition by a few transfers of papers. It may be said that railroad property could be excepted, but under our constitutional requirements of equality and uniformity in taxation, and the prohibition of special legislation concerning taxation, they could not. Their mortgages could not be taxed, because they are held by non-residents.

The next effect would be a general resort to foreign mortgages to escape taxation. From an extended investigation of the mortgage question I have been led to believe that the private mortgage indebtedness of Indiana is between three and four hundred millions of dollars, and that at least one-third of this is due to non-residents, and therefore not taxable here. The enterprising tax-dodger could easily cover his property with fictitious mortgages in favor of non-residents, and to escape taxation altogether. Aside from any prospective decrease of taxables, we should have immediately, from existing railroad mortgages and private foreign mortgages, a decrease of over $200,000,000 in the taxable property of the State, and all other property would have to be taxed about 15 per cent. higher to compensate for this loss. If domestic mortgages were in fact fully listed, and were not offset by claimed debt, there would be an equal decrease of taxables from this source,

but there is little reason to believe that the decrease would be of much importance. It may be mentioned here that the new census returns will show much less mortgage indebtedness in Indiana than really exists. The census, as taken here, includes no mortgages except those on property occupied by the owners thereof, which is probably about one-half of the total.

The leading example of mortgage exemption is furnished by the State of Massachusetts, which, in 1881, adopted a law taxing mortgaged real estate jointly to the mortgagor and mortgagee in proportion to the land less the mortgage and the mortgage respectively. It has frequently been claimed that this system operated satisfactorily, but the evidence of such result is not clear. In a report to the Boston Executive Business Association in October, 1889, made by a special committee on taxation, the system was extolled to the skies. It was conceded in the report that the mortgagor always paid the entire tax by agreement, but claimed that he paid less interest. It was claimed that this had increased the value of real estate, decreased the rate of interest, and was altogether so beneficial that "even the well-to-do business man can hardly afford not to have a mortgage upon his home." This may be taken as the proclaimed view of moneyed capital. On the other hand, Mr. Thomas Hill, chairman of the assessors of Boston, in a reply to these claims in January, 1890, demonstrated that, although there had been a general decrease in the rate of interest in Massachusetts, the average rate of mortgage interest had decreased in the eight years the law had been in force, but little more than one-half the tax rate. In other words, the money-lenders were getting practically all the advantage of the exemption. He said:

> All the concession that lenders of money upon mortgages have made to their borrowers they have been compelled to make by the laws of trade, not by those of the State. I am satisfied that were the laws that sustain the present exemption of mortgages repealed by the Legislature, as mortgages fell due the lenders would take the rate fixed by the money markets of the world, and pay their own taxes; and if they refused to do so, foreign capital would give borrowers all they required at that rate.

But however this law may have operated in Massachusetts, Indiana is not in the same condition as Massachusetts. The mortgage indebtedness of Massachusetts is almost wholly domestic, whereas that of Indiana, as we have seen, is largely foreign. Massachusetts can shift part of her real estate value to her resident mortgagees without loss of taxables, but Indi-

ana cannot. Unless some plan of reaching non-resident mortgagees can be devised, the Massachusetts system would never be satisfactory in Indiana.

Should credits be exempted from taxation? In the earlier years of the State, when the credit system was universal, credits were not taxed. The kinds of personalty taxed were named in the law and at first taxed a specific amount, without regard to value. This gave way to a value tax on specified classes of property, and this to a general property tax, not including credits. As the lines between the debtor and creditor classes grew more distinct, an attempt was made to reach moneyed capital without injuring those who were creditors because they were so unfortunate as not to be able to collect what was due them. The law of 1836 included among taxables "moneys loaned at interest." The law of 1837 added a provision that notes, bills, checks, drafts, etc., which "have been purchased with money" should be treated as money loaned at interest. The law of 1843 reached a general taxation of credits covering "all moneys at interest owing to the persons to be taxed, more than they pay interest for, and all other debts owing to them from solvent persons, more than they are indebted for." The evident intention of this provision, which with some modifications has been in force ever since, is to exempt credits of the debtor class and tax moneyed capital in the hands of the creditor class. The latter end has not usually been reached, and, as it is impossible for tax officials to make minute investigation of every taxpayer's business, it never can be fully reached.

If any change is to be made in the law on this subject, it seems to me that the most sensible plan would be to exempt credits altogether and permit no deductions for indebtedness. Of course, if this were done, every demagogue in the State would say that it was a favor to the creditor class, but I believe that investigation will satisfy any man that the present system is still more favorable to the creditor class, and that it takes more property off the tax duplicate than it puts on. The opportunities it offers to the tax-dodger are unbounded except by his conscience. If you tax credits at all, you should tax all of them. If the money in the State were reached, as has been suggested, by a tax on the average deposits of banks, there would be neither necessity nor policy for a tax on evidences of debt. There are some things called evidences of debt, however, such as stocks and bonds, that might more properly

be classed as evidences of ownership, and taxed accordingly. Aside from the opportunities it offers for concealment of property, the worst feature of the present system is its discrimination against domestic money lenders, who are taxed on their credits here, while foreign lenders, who are supposed to be taxed at their place of residence, are usually not taxed at all. Hence they can loan at lower interest. Indiana pays probably $7,000,000 annually in interest to foreign money-lenders. There is no very widespread sympathy for resident money-lenders, but it is certainly unwise to encourage such a large drain of ready money from the State, and thereby enable resident money-lenders to command higher interest. If the tax on credits were removed there should also be a decrease in the lawful rate of interest.

In Maryland, where the advanced ideas of taxation so ably advocated by Prof. Ely seem to have taken firm hold on the public mind, credits have recently been exempted from taxation. The provision appears to give satisfaction in that State, but it is too early to pass judgment on it. Indeed, as has been stated, the subject is too complicated and the results of any tried or proposed system are too uncertain to admit of dogmatic treatment. The subject has received a great deal of consideration from theoretical points of view, and always will, but it is doubtful whether any satisfactory conclusion will ever be reached except through an accurate observation and record of the results of various systems in different states. We have not yet obtained the data upon which conclusions may be safely based. The question really before us is whether we should proceed to experiment on this subject or await the results elsewhere; and unless there should be some clear expression of public sentiment in favor of the former course, the more conservative policy will probably be followed. *

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*NOTE. The ablest opponent of exemption of mortgaged lands is Henry Winn, of Boston, at present identified with the Farmers Alliance or People's party. He maintains that the idea is worked up by capitalists for the purpose of exempting the money lender, and the attempts made at it in this country have certainly had that effect. Forty years ago Connecticut adopted a law providing that each taxpayer should have his *bona fide* indebtedness deducted from the total value of his property for taxation, and the debt should be assessed to the creditors. [Acts of 1851, p. 63; Acts of 1852, p. 83.] After ten years of trial the following was adopted: "No contract heretofore or hereafter made shall be deemed usurious by reason of the borrower paying, or agreeing to pay, the taxes assessed and paid upon the sum loaned or the insurance upon the estate mortgaged to

secure the loan." [Acts of 1862, p. 24.] The lender or mortgagee always requires this agreement, while the borrower receives no advantage whatever from the law.

New Jersey provided in 1866 for the deduction of debts owing to "creditors residing within this State," and their assessment to the creditor. [Laws of 1866, p. 1,078.] In 1876 provision was made that "no mortgage or debt secured thereby shall be assessed for taxation, unless a deduction therefor shall have been claimed by the owner of the land," [Laws of 1876, p. 160 ] At the same time a law was adopted as to a large part of the State (New Jersey permits special legislation), which not only legalized agreements not to apply for a deduction for mortgage debt, but also provided that a violation of such agreement should make the mortgage due and payable, and the taxes paid by the mortgagee should be added to the mortgage debt. [Laws of 1876, p. 159.]

In Massachusetts a similar scheme was worked. The law there provided that the lender should be assessed for the amount of the debt, and the borrower for the remainder of the value of the land held as security, but it denied the borrower the right to recover the taxes paid for the lender if he "agreed otherwise in writing." [Acts of 1881, p. 646.] Of course the borrower always "agreed" before he received a loan, and the process of exempting the lender was simplified in the following year by a provision that the mortgage should not be assessed unless the deduction was claimed by the borrower. [Acts of 1882, p. 131.] The result is that the borrower is always taxed for the full value of his land, and the lender pays no tax on his mortgage.

In Oregon a very radical law was adopted, making mortgages "real estate," and taxing them where the property was located, the borrower being entitled to deduct the debt. [Acts of 1882, p. 64 ] At the next regular session of the Legislature a law was passed, making valid all contracts by which the borrower agreed to pay the tax on the debt, even if the debt bore the full legal rate of interest. [Acts of 1885, p. 125.] This agreement is always exacted, and the lender pays no tax on his loaned money.

In Michigan the same result has been attained without the usual supplemental legislation. The law recently passed there classed real estate mortgages as real estate, for purposes of taxation, assessed them to the mortgagees, and deducted the amount from the mortgagor's property, with provision that the borrower might recover if he paid the tax. [Acts of 1891, p. 288.] The Supreme Court of that State has recently decided that contracts by the borrower to pay any tax on the mortgage, whether existing or made in the future, are valid and binding, even if the mortgage debt bears the maximum of lawful interest. [Common Council of Detroit vs. Board of Assessors. Northwestern Reporter for April 16, 1892—vol. 51, p. 787.]

If there is any State in the Union where the project of exempting mortgaged lands has been tried, and has had any effect beyond exempting the money lender, I have been unable to discover it.

## IX.—THE FRANCHISE TAX.

In addition to the general tax law the last Legislature passed two acts so closely connected with it that they consti-

tute a part of the same general reform, and have, in fact, been treated by a large portion of the public as a part of the general law, The first of these is the act providing for fees to the State for articles of incorporation. (Acts, p. 84, Chap. 70.) It must be conceded that this act is more important for the principle it introduces into our economic system than for the immediate benefits to the State that will arise from it. To understand its real importance it must be borne in mind that while nominally this is a mode of taxation, it is, in fact, a system of sale of franchises, or perhaps more properly, a step toward such a system. A franchise is property, just as much as lands, or money, or goods. The law provides for its taxation as other property, but under the system that has heretofore existed in this State it is property that has been donated to the corporation that organized under our laws. The State received nothing whatever for the grant except the general benefit that was supposed to result to the public from the existence of the corporation. All that was paid was the fee given to the official for certifying, copying, or recording the necessary papers.

It may be noted in this connection that the general public policy of this country is for the government to get rid of everything of value it owns except what is necessary for immediate purposes, and this policy, while professedly one of development of resources and aid to the whole people, is in truth maintained by those who profit by our delusion. Take for example our national land system. In the earlier years of the nation there was some reason for holding out inducements to settlers on our frontiers, but even then speculators reaped huge benefits from our public lands. We have now passed the stage when there is any excuse for forcing settlement by public sacrifice, and yet the system continues. We now see bodies of adventurers grouping about Indian reservations and by invasion and continued lawlessness inducing the government to force unwelcome treaties on the owners and open the lands for settlement. We see then a grand rally of reckless and often lawless people, and a wild rush for possession of lands, in which success is frequently attained by cunning, by fraud, or by violence. We see the better lands held for a few weeks and then sold for ten times what the government received for them to the actual settler who desires to pursue the useful occupation of cultivating the soil. If these lands were sold at auction the government would receive the real value instead of the specu-

lator, and we would be relieved of much of the dishonor that to-day characterizes our Indian policy.

In other countries there is a very much greater effort made to obtain compensation for property of the government, which belongs to the whole people and of which the profits should go to the whole people by lessening taxes. In this country our cities have usually given away their natural monopolies, such as the use of streets for railways, water-pipes, gas-pipes, etc., and the states have permitted the exercise of governmental powers, such as the issue of money and condemning land for use of railroads, without receiving any return. In Indiana, prior to the constitution of 1851, charters of corporations were granted by the Legislature and without compensation to the State, but there is reason to believe that a portion of the members were not wholly paid by the State for their services. Obtaining charters, especially for railroad companies, became so difficult and so expensive that the constitutional convention was persuaded to require a system of incorporation under general laws, and thereafter the thrifty legislator was obliged to seek other fields for the exercise of financial genius, while the State continued to receive nothing as before.

There was, prior to 1851, one exception that is worthy of remark. The charter of the Terre Haute & Richmond Railroad Company (now commonly known as the Vandalia) provided (Sec. 23) that after the dividends should have equaled the capital invested and 10 per cent. per annum thereon, any profits in excess of 15 per cent. per annum should be turned over to the school fund; and it was made the duty of the company "to furnish the Legislature, if required, with a correct statement of the amount of expenditures and the amount of profits after deducting all expenses." From the extraordinary liberality of these terms it is evident that the incorporators did not anticipate any payment to the State, and yet the profits of the company have been such that it is practically certain that it now owes the State a large sum of money. In some strange way the road has always succeeded in preventing the Legislature from demanding an account of profits, and by even more remarkable maneuvering it has prevented any final action on the subject in the courts. One trial on the merits of the case was secured in 1872 in Owen county, and the jury disagreed, standing 11 to 1 in favor of the State. The judge discharged the jury at 3 o'clock in the morning, in the absence

of all the attorneys, and subsequently the Attorney General, who had previously insisted on maintaining this action, dismissed the case without consulting his colleagues. Later another suit was brought in Marion county, and taken to the Supreme Court, but a part of the papers, for some mysterious reason, had not been copied into the record, and on this technicality the suit was lost. No person of common intelligence will question that this line of fighting is very expensive to the company. None will doubt that if the company was not largely indebted to the State it would much prefer to have a judicial settlement of the matter and so end it. This case stands at present as one in which a great commonwealth has been wholly unable to compel common honesty from a Frankenstein of its own creation, and as the solitary and not very encouraging example of this State's endeavor to secure compensation for a franchise.

Other states have done something in this line, but not as much as is sometimes supposed. One of the most commonly mentioned examples is the Illinois Central railway, which pays 7 per cent. of its gross receipts to the state annually. In thirty-three years (1855-1888) this road paid into the State treasury $11,419,052.50, or an average of $346,000 per year, but it must be borne in mind, that during all this time it was "exempted from all taxation of every kind," and that at usual tax rates it would have paid nearly as much to the public. Its dividends in the same period were $57,605,794 50 —over five times as much as it paid the State, and the dividends did not exceed one-half of the net earnings, for this road has not only made extraordinary betterments, but also has made enormous investments in other railroad property. It is probable, therefore, that the amount paid to the state is about 10 per cent. of the net earnings, and this would not largely exceed the proportion paid in this State for ordinary taxes. But, further than this, the State of Illinois donated to this road 2,595,000 acres of land, which was exempted from taxation until sold by the company. Almost all this land has been sold, and the company has netted certainly not less than $5 per acre from it, so that this road has in fact received more from the state than it has paid into the treasury, in addition to being exempt from taxation.

There is no reason why railroad corporations, and perhaps mining, manufacturing, banking and other corporations, should not pay annually 2 or 3 per cent. of their gross receipts in ad-

dition to ordinary taxes, as compensation for the franchises granted them by the State. Unquestionably they receive from the state property of actual money value in their incorporation, and the best method of measuring that value is the profit arising from the business transacted. The present law, however, undertakes a percentage contribution on the capital stock at the time of organization. In the first seven months of its operation (March 7-Oct. 7, 1891) it has brought into the State treasury the sum of $13,409. This is a good start. It is just that much more than was ever derived from these sources in the past. But it is not adequate. It is the compensation for corporate capitalization to the amount of $17,324,950, classified as follows under our various corporation laws: Building and savings companies, $7,699,000; railways, etc., $1 800,000; mining and manufacturing, $6,692,450; banking, $303,000; voluntary miscellaneous, $830,500. On its face it seems evident that the compensation is too small and that the basis on which it is fixed is not just.

The smallness of the receipts, however, is not due entirely to the small percentage charged. The law as framed admits of evasions, which have already been resorted to by ingenious incorporators. One class of these is illustrated by the case of the Chicago, Indianapolis & Chattanooga Southern Railway Company, which is now surveying its line from Chicago to Rockport, Indiana, by way of Indianapolis. This road can hardly locate less than three hundred miles of its line in Indiana, and if capitalized at anything near the cost of construction its stock would not have been less than $3,000,000, and the State's fee not less than $3,000. Instead of that, its capital stock was made $50,000, and it paid $50 for incorporation. It is absurd to speak of this as compensation for the franchise, but how can such a result be avoided under the law? You can not compel a corporation to have a certain amount of capital stock. In the case of railroads the charge might be based on mileage, as done in Mississippi in the ordinary taxation of railroads, but this could not be applied to other classes of corporations. Of all modes that have been suggested thus far, the best is a percentage of gross receipts.

The second important form of evasion is illustrated by the case of a large loan and investment company, whose capital stock is $1,000,000. The incorporators intending to carry on their business in Indiana, prepared to incorporate here, but on learning that the cost of doing so would be $390 if incorpo-

rated as a building and loan association, or $1,000 if incorporated otherwise, they organized in Kentucky, paid $3 for their papers, and proceeded to the transaction of their business in Indiana. This is an example that can and will be followed in many cases, and the only way of preventing it is to place some equal charge on foreign corporations doing business in this State. But this remedy may be open to serious objection on account of the effect it would have on Indiana corporations doing business in other states, for the common statutory provision is that foreign corporations may do business in a state on the same terms that are imposed by the incorporating state on foreign corporations; i. e., whatever law we make for foreign corporations here we make in a number of the states for our corporations doing business in those states.

It will be seen from these facts that the subject is one that can not be adjusted without some difficulty, and one of the chief difficulties will be found in the popular ideas concerning the organization of corporations. There are a great many persons who recognize and lament the appalling growth of power of corporations, but very few seem to consider the partial remedy of restricting their future increase and placing greater safeguards about them through the laws of incorporation. We have grown to regard incorporation as a sort of inherent and inalienable right, and to consider the free exercise of it as putting every one on an equality. Theoretically this may be true, but practically the power of incorporation is the weapon of wealth, not of poverty. The paupers, A, B and C, may incorporate to the extent of millions, but they will be no wealthier or stronger than before. The owners of millions, X, Y and Z, may incorporate and vastly increase the power of their capital. We have too many corporations. We have too high an opinion of their public utility. We underestimate their danger. Already we have realized the truth that the State must rule the corporations or the corporations will rule the State. We are confronted by the possibility that it may be too late to turn back. Certainly there must be a general awakening before adequate reforms can be obtained in the laws regulating the organization and regulation of corporations.

## X.—THE PRACTICAL RESULTS.

In conclusion of the subject of Indiana's new tax system, there remains to be considered the law providing for a special tax of 6 cents on $100 for the support of the benevolent and reformatory institutions of the State (laws of 1891, Chap. 123, p. 334), and it has been necessary to defer this consideration until the returns of the tax duplicates had been made from the counties, in order to ascertain the exact results of the assessments aud levies. The fact that the State was not raising enough revenue to pay its current expenses when the last Legislature met was generally known, but the extent and character of the deficit were not so well understood. In his message to the Legislature, at the opening of the session, Governor Hovey said of the financial condition of the State:

> Taking the above figures, *not including specific appropriations that may be passed by the Legislature*, as a basis, the deficit over and above the net receipts for the year 1891 would be $757,080.88. The estimated necessary expenses of the State government for the year 1892 are $1,873,090, and for 1893, $1,998,090, which would leave a deficit at the end of each year, respectively, of $424,939 and $549,939, to which deficiencies *should be added any additional appropriations that may be made by the Legislature* for those years. Immediate provisions, in my opinion, should be made for the relief of the treasury, the importance of which can readily be seen, as a continuation of the increase of the State debt becomes a necessity, unless your honorable body enacts such laws as may increase the receipts of the State equal to the necessary expenditures and appropriations. * * *
>
> Since 1877 a sufficient revenue has not been raised to pay the expenses of the State, and every year has added to our indebtedness, until to-day the State debt has reached the enormous sum of $8,540,615.12, with a still increasing indebtedness, unless some relief can be obtained by legislation. With the same system that has heretofore prevailed, we will still have to borrow money to sustain our institutions and expenses of the State, with an annual deficit of about $500,000. Surely the day of borrowing for such purposes should cease. We have no right to mortgage our future revenue to be paid by those who may come after us.

This statement is fair enough, so far as it goes, with the exception that the stated probable deficit of "about $500,000" per annum is obviously an underestimate. The average of the three years mentioned—1890, 1891 and 1892—is $577,319, and to this, as the Governor says, "should be added any additional appropriations that may be made by the Legislature." These additional appropriations will average at least $300,000 per annum, with a reasonably economical Legislature, and it was therefore evident that if there was to be made any reduction of the State debt, which began to fall due in 1892, the revenues must be increased at least $1,000,000 per annum.

There is also an inference in this statement that the growth of the State debt was due to ordinary expenditures, which is misleading. In 1877 the State levy was fixed with a view to meeting expenses as the State was then conditioned, and it had not been increased afterward; but since that time the State had made large additions to its permanent property, for the cost of which no special revenue was raised. The principal of these were the new Insane Hospitals at Evansville, Logansport and Richmond and the Women's Hospital at Indianapolis, the Soldiers' and Sailors' Orphans' Home at Knightstown, the new buildings at the institutions for the blind and deaf and dumb, and at Purdue and the State Universities, and the State Soldiers' and Sailors' Monument.

In addition to these should be mentioned the equipment of the State House, for though a special tax was levied for the construction of the building, it was held that this did not include furnishing the building after it was constructed, and the sum of $707,500 was expended on this account from the ordinary revenues, and, of necessity, so much was added to the debt.

As to the necessity for these buildings there can be no question. No political party has ever questioned the propriety of the expenditures for any one of them, and no party will ever question it. As a State increases in population there is necessarily an increase in the number of unfortunates and criminals to be cared for, and if the State is increasing in civilization there will also be a continual improvement in the care given to these classes. In this case, on account of the provisions of the State Constitution concerning state debt, the whole matter was submitted to the courts, and the Supreme Court (composed at the time of four Republican judges and one Democrat), decided as follows:

"The court has knowledge that the State has been engaged for several years in providing public buildings and necessary State institutions, and that unusual and unforeseen expenditures have been required, calling for appropriations of public money. We also take notice that a public law has been enacted under which a suitable memorial to the valor and patriotism of Indiana soldiers is in process of erection at the capital of the State. All these are subjects which pertain to the public welfare of the people and are within ordinary legislative discretion."—*Hovey, governor, vs. Foster, 118 Ind., 502, (at p. 510.)*

It is also to be borne in mind that the increase in State institutions necessitates an increase in operating expenses. In 1877 the total expenditure on this behalf for the benevolent and reformatory institutions was only $440,000 per annum (Auditor's Report 1878, p. 13), but at present it has increased to $1,111,400 per annum (Auditor's Report 1890, pp. 11–12.) In the same period the earnings have increased $90,000 per annum, so that the net annual expenditure is $570,400 more than it was when the levy of 12 cents on $100 was fixed in 1877. At the same time there had been no increase of valuation such as might ordinarily be expected. The total assessment in 1877 was $855,190,125, but it has never been so great since then except in the one year 1879. On the contrary, it went down to $728,944,231 in 1880, and in its gradual recovery it had reached only $843,483,466 in 1889. That is to say, for fourteen years the State of Indiana had been maintaining a fixed tax rate of 12 cents on $100, notwithstanding her expenses were continually increasing and her tax valuation had suffered a serious shrinkage. The only wonder is that the financial condition of the State is so good as it is, and this is in truth due to skillful financiering. It is a notable fact that in 1877 the annual interest charge of the State was $298,026.99, while at present it is only $284,325, notwithstanding the increase of the debt; and the ability to refund at lower rates of interest has demonstrated that the credit of the State is excellent. There has not, in reality been any material carelessness or profligacy in the management of the State's affairs. It has simply been a matter of going into debt instead of "paying as you go."

In fixing the State levies the Legislature of 1891 was hampered by an uncertainty as to the amount of the assessment under the new law. Ordinarily, the assessment can be approximated within a few thousand dollars, but with the provisions of the new law for bringing assessments to the basis of true valuation, for the purpose of equalizing taxes, no one could say what the result would be. It was reasonably certain that actual true valuation would not be reached the first year, on account of the common supposition that increased valuation meant increased taxation, and the impossibility of making people understand, without experience and education in the subject, that the true valuation basis is the fairest, and in every way best, system. As has been shown heretofore, the actual increase has been about 50 per cent. instead of over 100 per

cent., as it should have been, and the valuation now is about 70 per cent of true valuation. But no one could know that this would be the result, and all that could be done was to guess at it. The additional rate was therefore fixed at 6 cents on $100, at a venture, and the results demonstrate that this was a remarkably good piece of guess work.

The total assessment of Indiana for the current year, as shown by the duplicates, is $1,255,256,038. The total tax levied is $17,510,428 64, of which the amount credited to the State, including the benevolent and reformatory institution tax, is $2,439,556.91. Deducting from this the ordinary delinquency, and adding the ordinary collected delinquent tax of past years, we have a probable State revenue from taxation for the current year of $2,166,612.30. The actual receipts for the last fiscal year were $1,096,839.07, and the probable increase is therefore $1,069,872.23, or nearly 100 per cent. This is a large increase, but it is about what was expected, and it is not in excess of the needs of the State if there is to be any reduction of the debt. On the basis of the actual expenditures of 1891, the annual account of the State would stand as follows:

| | |
|---|---|
| Income from taxation | $2,166,612 30 |
| Income from other sources | 400,000 00 |
| Total income | $2,566,612 30 |
| Net disbursements 1891 | 2,520,934 60 |
| Balance | $ 45,678 70 |

Of the disbursements of 1891, $20,355.63 was a payment of outstanding debt, and therefore the surplus above current expenses would be about $66,000.

It has been assumed by opponents of the new tax law that this increase of State taxes falls on the private property-owners of the State. *I affirm that not one cent of the increase of State taxes, taken as a whole, falls on private property, but that it is all borne by the corporations of the State.* This is a rather startling proposition, but it can be demonstrated conclusively. The theory of the committee which brought in the new tax law was that, if an assessment of corporate property could be had on the same basis as other property, the increased revenue would supply all the needs of the State, and as the existing revenue from taxation of railroads was about equal to the total existing State revenue from taxation, it was proposed to give the proceeds of railroad taxation to the State in

lieu of the general property tax. When this measure was defeated the result was that the State could receive from the taxation of corporations only the same percentage of taxes that it received from other property, but, on a fair assessment, the same increase of taxes would occur and the proceeds would go into the local treasuries, thus permitting a reduction of local taxes on the people which would compensate for the increase of State taxation. The result, therefore, would be the same, though under the original proposed system it would be reached directly and under the adopted system it would be reached indirectly.

Now, how did this work out in fact? In 1890 the total valuation was $857,674,387, and the total taxes levied, State and local, were $14,511,146.38. The average rate for the year was, therefore, $1.70 on $100. In 1891 the total valuation is $1,255,256,038, and the total taxes levied, $17,510,428.64. The average rate for the year is $1.40 on $100. The average railroad taxes for the two years would therefore be as follows:

| | *Assessment.* | *Rate.* | *Taxes.* |
|---|---|---|---|
| 1891 | $160,809,575 | $1 40 | $2,251,333 95 |
| 1890 | 69,762,667 | 1 70 | 1,185.955 60 |
| Increase of railroad taxes | | | $1,065,378 85 |
| Total increase State taxes | | | 1,069,772 23 |
| Excess of State increase over railroad increase | | | $4,393 88 |

This average will not probably hold good for the reason that the heavy increase of railroad assessment in counties having a large percentage of railroad property will cause a reduction of the local levies in those counties, and therefore a decrease in the taxes realized.* Allowing 10 per cent. for this probable shrinkage, we will have left only about $115,000 of the increase in State taxes collected, to be covered by the increase of the general property tax on banks, telegraph and telephone companies, express companies, manufacturing and mining companies, and all other corporations. The exact amount of the increase on these cannot be definitely shown because they are not classified separately, but it very largely exceeds this sum. The State Board of Tax Commis-

*NOTE. The actual increase in railroad taxes is $987,203.28 (See Appendix 2.) The total taxes paid by railroads for 1890 was $1,093,936.78. The amount assessed for 1891 is $2,081,140.06. The amount necessary to be increased on other corporations to equal the State tax increase is $82,568.95.

sioners increased the assessment of corporations other than railroads $2,993,861, and the tax on this at $1.40 would be $41,914.05, but this is only the increase above what had already been made by the local boards, which, as is well known, was very much greater. It is clear, therefore, that the entire burden of the increase of State taxes fell on the corporations.

It may be replied that this averaging of taxes will not hold good with the actual results in detail. It certainly will not in some cases, and for good reason. Consider the returns given above.

| | |
|---|---|
| Total taxes assessed in 1891 | $17,510,428 64 |
| Total taxes assessed in 1890 | 14,511,146 38 |
| Total increase | $ 2,999,282 26 |
| Deduct total increase of State taxes assessed | 1,230,547 73 |
| Increased local taxes | $ 1,768,734 53 |

That accounts for most of the increase. The new tax law did not contemplate any increase of local taxes at all. Its objects were only to supply necessary State revenue and equalize taxation. But here is an increase of local taxes far in excess of the increase in State taxes. Why? Either there has been a necessary increase in local expenses, or local officers have made higher levies than they ought. They have done like the Indianapolis School Board, which increased its levy from 20 to 23 cents, notwithstanding the assessment in the city had been increased 45 per cent. The blame for this must rest on the local officers. The law is in nowise responsible for it. If local taxes had been left as they were last year, the total taxes levied would be $1,768,734 53 less than they are.

Again, there are some counties in which there is an increase of taxes because they were not bearing their just burden under the old system. This has been considered at length heretofore, and the injustice of it has been pointed out. These counties have no reason to complain because they are put on a footing with other counties which have been bearing their burdens in the past. They might more reasonably congratulate themselves that they are not required to make up what they have unjustly escaped in the past. Of course there will be counties in which the prevailing sentiment will be that the property is assessed too high as compared with other counties. There is but one way to escape that complaint, and that, as has been shown, is to separate the sources of State and local revenue.

There will also be several counties in which the compensation will not occur because they have very little corporation property. In three counties there is no railroad property at all, and but little corporation property of any kind. On the other hand there are counties in which the increase on corporation property will be largely in excess of the total increase for State purposes.

This notable increase of tax on corporations is the cause of the almost universal resistance to the law by corporations. How successful they may be in their efforts to overthrow it in the courts remains to be seen, but there has certainly been no material flaw in the law pointed out thus far. Whether it succeeds or not the law has at least educated the people to the fact that corporations have been escaping their just share of taxes in the past, and that they can be reached. In some sections the demagogical pretenses of politicians, aided by an increase of local taxes—which in many cases has apparently been made intentionally, for political effect—will create a prejudice against the law. But the great majority of the people will understand its benefits, and in its main features it will be retained for many years, bettered and strengthened, but with no change in the fundamental principles upon which it is based.

# APPENDIX I.

The following table shows the total assessment, and the railroad assessment by counties for 1890 under the old law, and for 1891 under the new law. The names of Republican counties (i. e., those having Republican county commissioners) are in italics; Democratic counties in Roman type. Brown, Ohio and Switzerland counties have no railroads.

| COUNTIES. | TOTAL ASSESSMENT. | | RAILROAD ASSESSME'T | |
|---|---|---|---|---|
| | 1890 | 1891 | 1890 | 1891 |
| Adams | $ 5,590,520 | $ 9,757,915 | $ 471,505 | $1,281,550 |
| Allen | 28,501,685 | 40,318.120 | 2,857,485 | 5,335,275 |
| Bartholomew | 11,373,784 | 14,965,220 | 570,835 | 1,830,345 |
| *Benton* | 5,904,914 | 10 528,156 | 624,423 | 1,731,651 |
| Blackford | 3,115,000 | 5,303,430 | 272,150 | 720 645 |
| *Boone* | 9,792,060 | 14 648,680 | 590,405 | 1,388,950 |
| Brown | 1,606,805 | 1,801,657 | ..... | ..... |
| Carroll | 8,380,380 | 12 184,299 | 572,840 | 1,211 035 |
| Cass | 10,953,665 | 19,189,500 | 1,287,170 | 2,794,820 |
| Clark | 9,135,135 | 12,708,630 | 938,504 | 2,440,090 |
| Clay | 7,169,609 | 11,251,457 | 693,043 | 1 442,693 |
| *Clinton* | 10,133,340 | 16,257,330 | 781,785 | 1,787,935 |
| Crawford | 1,384,358 | 2,478,777 | 194,170 | 463,062 |
| *Daviess* | 6,486,960 | 11,013 148 | 550,820 | 1 215,720 |
| Dearborn | 8,312,590 | 10,691,935 | 647,390 | 1,355,980 |
| *Decatur* | 9,557,150 | 12,292,735 | 590,745 | 1,265.500 |
| DeKalb | 7 115,900 | 14,059,595 | 1,313,470 | 2,752 250 |
| *Delaware* | 11,259,230 | 17,369,790 | 635,745 | 1,482,665 |
| Dubois | 3,872,480 | 5,501,435 | 300,130 | 698,975 |
| *Elkhart* | 13,897,361 | 19,809,425 | 1,252,820 | 2,168,355 |
| *Fayette* | 7,321,498 | 10,134,786 | 315,658 | 1,029,628 |
| Floyd | 11,203 130 | 15,236,970 | 298,885 | 954 215 |
| *Fountain* | 7,584,540 | 11,598,250 | 751,235 | 1,939,250 |
| Franklin | 7,767,210 | 8,280.035 | 169 250 | 358,775 |
| Fulton | 5,465,385 | 9 982,980 | 577,990 | 1,506,685 |
| *Gibson* | 10,111,925 | 13,683,445 | 700,095 | 1,503,405 |
| *Grant* | 10,468,715 | 20,122,055 | 688,130 | 1,514,185 |
| *Greene* | 5,944 360 | 9,621,590 | 376,119 | 1,232,272 |
| *Hamilton* | 9,653,205 | 15,518,485 | 395 675 | 843.565 |
| Hancock | 8,718 863 | 12,161,757 | 631,547 | 1,745,200 |
| Harrison | 4,371,275 | 5,620,655 | 167,475 | 391,880 |
| *Hendricks* | 11,246,698 | 14,422,702 | 942 804 | 2 227,648 |
| *Henry* | 13,389,670 | 17,657,790 | 966,630 | 2,719,640 |
| *Howard* | 8,223,365 | 13 910,790 | 480,8~5 | 1,088,250 |
| *Huntington* | 9,202,145 | 14,053,4~0 | 726,150 | 1,464,230 |
| Jackson | 6,932,185 | 10,054,570 | 789,615 | 1,826 275 |
| *Jasper* | 3,838,925 | 6,807.250 | 538,465 | 1,425,566 |
| *Jay* | 7,678,650 | 10,131,765 | 487,950 | 1,154,475 |
| *Jefferson* | 7,461,175 | 10,462,985 | 191.455 | 707,285 |
| *Jennings* | 3,529 895 | 5,948,547 | 637.890 | 1,751.377 |
| Johnson | 10,346.245 | 12,879,965 | 451.475 | 972,055 |
| Knox | 11,564 530 | 15,085,155 | 715 645 | 1,780.765 |
| *Kosciusko* | 11,576,009 | 17,780,460 | 1,535,314 | 3,013,940 |

| COUNTIES. | TOTAL ASSESSMENT. | | RAILROAD ASSESSME'T | |
|---|---|---|---|---|
| | 1890 | 1891 | 1890 | 1891 |
| *Lagrange* | 6,463 815 | 9,557,940 | 261,750 | 469,385 |
| *Lake* | 11,084,270 | 23,004 615 | 4,558,025 | 8,053,260 |
| LaPorte | 16,436,597 | 22,741,587 | 3,351,996 | 6,444,587 |
| *Lawrence* | 5,690,585 | 8 321,455 | 663,420 | 1,691,710 |
| Madison | 11,337,010 | 22,451,890 | 931,415 | 2,157,570 |
| Marion | 78,148,190 | 124,665,220 | 3,385,745 | 11,230,520 |
| Marshall | 8,959,550 | 13,887,450 | 1,774,660 | 3 703 685 |
| Martin | 2,456 025 | 3,578,220 | 298,170 | 666 620 |
| Miami | 8,677,155 | 14,409,475 | 893,595 | 1,867,065 |
| *Monroe* | 5,751,035 | 7,283 800 | 268,150 | 669,590 |
| *Montgomery* | 15,862,649 | 20,099,805 | 799 374 | 2,139,665 |
| *Morgan* | 7,745,890 | 9,356,337 | 261,430 | 720 657 |
| *Newton* | 3,633,769 | 7,583,121 | 616,057 | 1 786,601 |
| *Noble* | 8,714,642 | 15,320,218 | 1,254,346 | 2,462,651 |
| *Ohio* | 1,456 445 | 1,953 690 | ..... | ..... |
| *Orange* | 3,599,717 | 4,131 014 | 174 510 | 384,693 |
| Owen | 4 876,536 | 6,204,360 | 275,258 | 830,930 |
| *Parke* | 9 887,040 | 11,805 065 | 587,385 | 1,668,115 |
| Perry | 2,438,465 | 3,385,590 | 63,610 | 151,350 |
| Pike | 3,922,535 | 5,669 386 | 173,010 | 446,708 |
| *Porter* | 9,134,565 | 13 824 510 | 2 851,185 | 5,450,470 |
| Posey | 8,414,715 | 10 116,765 | 727,000 | 1,486.170 |
| Pulaski | 2,964 075 | 5 052,040 | 492,015 | 1,246,520 |
| Putnam | 13,225,075 | 16,359,075 | 1 071,310 | 2,347,735 |
| *Randolph* | 12,626,460 | 16 925,540 | 910,610 | 2 365,535 |
| Ripley | 4,277,450 | 7,110,085 | 417,710 | 902,165 |
| *Rush* | 12,357,675 | 16,809,440 | 509,325 | 1,847,175 |
| Scott | 1,819 035 | 2,647,615 | 286 630 | 660,155 |
| Shelby | 12,811,335 | 17,833,585 | 600,995 | 1,857,435 |
| *Spencer* | 4,993,355 | 6,534,490 | 310,645 | 739,670 |
| Starke | 2 370,581 | 4,254,590 | 1,140,075 | 2 557.316 |
| St. Joseph | 16,175 560 | 24,964,150 | 1,406,230 | 2,760,340 |
| *Steuben* | 4,237,070 | 7 341,250 | 186,685 | 396 045 |
| Sullivan | 6,867,520 | 10,444,605 | 532,760 | 1.204,970 |
| Switzerland | 2,915 735 | 4,363,580 | ..... | ..... |
| *Tippecanoe* | 20 721,430 | 25,976,690 | 1 243,320 | 2,466,850 |
| Tipton | 4,686 630 | 8,057 110 | 456,550 | 974 530 |
| *Union* | 4,671,575 | 5,511,640 | 181,445 | 563,980 |
| *Vanderburgh* | 22,727,590 | 34 969,120 | 972 950 | 2,042,955 |
| *Vermillion* | 5,549,370 | 7,170,985 | 463,910 | 1 225,275 |
| *Vigo* | 25,722 255 | 30,812,780 | 1,207,825 | 2,511,815 |
| *Wabash* | 12,440,410 | 17,168,495 | 861.820 | 1,631,095 |
| *Warren* | 5,591,905 | 8,574,670 | 467,045 | 1,043,511 |
| Warrick | 4,977,600 | 6,643 960 | 207,965 | 526,630 |
| Washington | 5,807,535 | 7,090,240 | 229.835 | 570,115 |
| *Wayne* | 23,967,162 | 26,387,194 | 901,821 | 2,358,753 |
| Wells | 7,121,115 | 10,884,375 | 422,840 | 1.145,190 |
| White | 5,893,715 | 10,483 575 | 719,830 | 1,801.900 |
| Whitley | 7,344,440 | 11,679,025 | 1,095,665 | 2,191,445 |
| TOTAL | $857,674,387 | $1 255,256.038 | $69,762,676 | $161,039,169 |

It will be seen from the table that while the general increase of assessed values was $397,581,651, or an advance of 46 per cent. over 1890, the increase in railroad valuation was $91,276,493, or an advance of 130 per cent. over last year. As all property taxes are levied at equal rates on all property, the burdens of various classes of property will be in proportion to their assessed value. Classing railroad property separately, the relative burden borne by it and by other property for the two years is as follows:

| | | | |
|---|---|---|---|
| 1890— | | | |
| Real Estate | $ 553,937,744 | = | 64 6 per cent. |
| Personalty | 233,973,967 | = | 27.3 per cent. |
| Railroad | 69,762,676 | = | 8.1 per cent. |
| Total | $ 857,674,387 | = | 100.0 per cent. |
| 1891— | | | |
| Real Estate | $ 798,600,323 | = | 63.6 per cent. |
| Personalty | 295,616,546 | = | 23.6 per cent. |
| Railroad | 161,039,169 | = | 12.8 per cent. |
| Total | $ 1,255,256,038 | = | 100.0 per cent. |

That is to say, the new equalization takes 1 per cent. from the burden of real estate, and 3.7 per cent. from the burden of personalty, and adds 4.7 per cent. of the total taxes to railroad property. The law aimed to reach money concealed in banks, but under the recent decision of the Supreme Court it fails to accomplish that result. The personalty listed is chiefly visible property, such as merchandise, household goods, cattle, tools, etc. If money could be reached the percentage of personalty would be materially increased and the burdens of other property proportionately decreased.

The total assessment in the forty-six Republican counties increased from $439 252,270 to $630,198,313, or $190,946,043, being an advance of 43 per cent. The total assessment in the forty-six Democratic counties increased from $418,422,117 to $625,057,725, or $206,635,608, being an advance of 49 per cent.

# APPENDIX 2.

The following table shows the total taxes levied for 1890 and 1891, the total increase or decrease, the increase of State taxes, and the increase of railroad taxes, by counties. Counties having Republican Commissioners are in italics:

| COUNTIES. | Total tax levied 1890. | Total tax levied 1891. | Total incr'se *Decrease. | Increase of State tax, incl benev. & reform fund | Increase of Railroad taxes. |
|---|---|---|---|---|---|
| Adams | $ 109,818 48 | $ 138,423 46 | $ 28,604 98 | $ 10,660 56 | $ 6,623 18 |
| Allen | 418,995 78 | 461,330 68 | 42,334 90 | 38,408 09 | 14,076 02 |
| Bartholomew | 230,782 84 | 240,999 37 | 10,216 53 | 14,147 01 | 16,371 02 |
| *Benton* | 108,609 26 | 156,734 73 | 48,125 47 | 11,897 16 | 13,648 12 |
| Blackford | 60,226 67 | 80,423 51 | 20,196 84 | 5,913 88 | 4,852 90 |
| *Boone* | 151,015 12 | 185,479 62 | 34,464 50 | 14,530 02 | 8,812 40 |
| Brown | 28,628 95 | 31,741 98 | 3,113 03 | 1,307 82 | ..... |
| Carroll | 139 721 68 | 169,979 16 | 37,257 48 | 11,828 77 | 4,998 44 |
| Cass | 211,900 97 | 191,249 37 | *20,651 60 | 21,363 19 | 5,439 43 |
| Clark | 194,037 12 | 148,911 43 | *45,125 69 | 11,901 58 | 7,999 95 |
| Clay | 116,373 37 | 146,928 76 | 30,555 39 | 11,777 81 | 5,581 97 |
| *Clinton* | 201,836 96 | 259,008 05 | 57,171 09 | 17,026 21 | 12,099 69 |
| Crawford | 41,780 82 | 48,537 33 | 6,756 81 | 2,810 39 | 2,473 69 |
| *Daviess* | 95,298 95 | 151,523 56 | 56,224 61 | 11,981 85 | 9,457 57 |
| Dearborn | 115,977 45 | 145,738 68 | 29 761 23 | 9,109 58 | 9,589 36 |
| *Decatur* | 151,001 35 | 186,890 40 | 35,889 05 | 8,955 93 | 9,344 54 |
| DeKalb | 157,787 55 | 182,155 13 | 24,367 58 | 16,688 01 | 4,949 18 |
| *Delaware* | 186,573 61 | 267,787 87 | 81,214 26 | 18,659 70 | 12,850 58 |
| Dubois | 67,421 89 | 66,719 22 | *702 67 | 5,260 07 | 2,880 37 |
| *Elkhart* | 239.126 58 | 276,817 88 | 37,691 30 | 18,977 58 | 9,682 89 |
| *Fayette* | 98,803 26 | 114,815 36 | 16,012 10 | 7,614 83 | 9,022 90 |
| Floyd | 117,660 72 | 152,026 56 | 34,365 84 | 14,178 42 | 6,410 79 |
| *Fountain* | 162,669 24 | 194,954 38 | 32,285 14 | 13,489 34 | 16,515 93 |
| Franklin | 115,297 99 | 113,305 84 | *1,932 15 | 5,519 83 | 2,145 59 |
| Fulton | 93.771 74 | 106,579 22 | 12,807 48 | 11,413 60 | 5,715 09 |
| *Gibson* | 170,615 78 | 206,483 85 | 35,868 07 | 12,474 90 | 10,247 04 |
| *Grant* | 212,052 02 | 278,766 42 | 66,654 40 | 23,717 16 | 6,081 97 |
| *Greene* | 112,092 22 | 141,881 80 | 29.789 58 | 10,203 64 | 9,377 22 |
| *Hamilton* | 192,604 42 | 230,595 80 | 37,991 38 | 15,936 81 | 5,755 76 |
| Hancock | 154,032 09 | 163,504 14 | 9,472 05 | 11,424 22 | 10,979 14 |
| Harrison | 75,789 10 | 80,010 92 | 4,221 82 | 4,819 57 | 2,406 19 |
| *Hendricks* | 165 483 05 | 213,112 19 | 47.629 14 | 12,440 83 | 18 505 51 |
| *Henry* | 207,764 75 | 253,593 79 | 45,829 04 | 15,600 09 | 22,049 05 |
| *Howard* | 151,083 05 | 172,971 21 | 21,888 16 | 15,248 39 | 4,465 22 |
| *Huntington* | 172,375 14 | 204,872 30 | 32,496 16 | 14,261 40 | 8,282 29 |
| Jackson | 153,764 15 | 152,031 43 | *1,732 72 | 9,853 57 | 9,512 11 |
| *Jasper* | 81,334 30 | 107,419 29 | 26,084 99 | 7,620 84 | 11,077 91 |
| *Jay* | 139,255 01 | 182,679 63 | 43,424 62 | 8,880 86 | 11,507 99 |
| *Jefferson* | 114,244 49 | 136,605 92 | 22,361 43 | 9,915 47 | 6,279 67 |
| *Jennings* | 72,675 52 | 94 370 23 | 21,694 71 | 6,473 37 | 11,942 68 |
| Johnson | 162,820 57 | 180,350 02 | 17,529 45 | 10.788 38 | 5,867 05 |
| Knox | 146,948 31 | 170,083 74 | 23 135 43 | 13,193 01 | 9,597 71 |
| *Kosciusko* | 201,082 85 | 207,552 55 | 60,469 70 | 18,066 31 | 19,101 10 |
| *Lagrange* | 97,001 47 | 143,799 12 | 46,797 65 | 9,428 71 | 1,893 98 |
| *Lake* | 172,675 29 | 306,701 17 | 134,075 88 | 28,976 09 | 40.309 53 |
| LaPorte | 192.355 16 | 240.215 97 | 47,860 81 | 21,157 36 | 27,332 33 |
| *Lawrence* | 98,182 40 | 132,865 61 | 34,683 21 | 8,218 74 | 15,087 51 |
| Madison | 219,828 08 | 284,339 82 | 64,511 74 | 26.957 65 | 10,843 55 |
| Marion | 1,463,735 80 | 1,891,502 68 | 427,766 88 | 130,609 96 | 95,344 02 |
| Marshall | 146,928 39 | 175 841 20 | 28,912 81 | 14,203 36 | 17,028 50 |
| Martin | 60,735 50 | 60,976 90 | 241 40 | 3,372 89 | 3.507 40 |
| Miami | 181,769 89 | 181,208 19 | *561 70 | 15,571 04 | 2,720 43 |
| *Monroe* | 85,158 53 | 112,079 99 | 26 921 46 | 6,089 59 | 5,775 51 |
| *Montgomery* | 223,377 42 | 224,913 56 | 1,536 14 | 17,134 19 | 12,453 25 |
| *Morgan* | 149,318 78 | 166 281 84 | 16,963 06 | 7,536 42 | 7,800 59 |
| *Newton* | 71,651 74 | 97,376 93 | 25,725 19 | 9,312 55 | 12 404 30 |
| *Noble* | 146,720 06 | 168,365 57 | 21,645 51 | 17,217 72 | 6,119 75 |

| COUNTIES. | Total tax levied 1890. | Total tax levied 1891. | Total incr'se *decrease. | Increase of State tax, incl. benv. & reform fund | Increase of Railroad taxes. |
|---|---|---|---|---|---|
| *Ohio* | 22,349 14 | 28,331 08 | 5,981 94 | 1,778 07 | ..... |
| *Orange* | 58,232 89 | 71,941 54 | 13,708 65 | 3,112 53 | 3,185 82 |
| Owen | 79,193 34 | 90,627 30 | 11,433 96 | 5,313 52 | 6,356 08 |
| *Parke* | 151.576 01 | 168,152 01 | 16,576 00 | 10,040 07 | 12,203 57 |
| Perry | 55 429 92 | 78,419 45 | 22,029 53 | 3,142 43 | 2,139 29 |
| Pike | 82,708 94 | 77,883 14 | *4,825 80 | 5,583 36 | 2,227 67 |
| *Porter* | 143,904 28 | 207,502 73 | 63,538 45 | 13,857 67 | 35,723 16 |
| Posey | 139 797 36 | 163,037 47 | 23,240 11 | 8,168 05 | 11,130 04 |
| Pulaski | 66,875 59 | 79,910 78 | 13,035 19 | 5,499 93 | 7,544 47 |
| Putnam | 145,325 33 | 169,013 43 | 23,688 10 | 13,469 27 | 11,663 88 |
| *Randolph* | 208,243 67 | 258,594 45 | 50.350 78 | 15,263 70 | 20.804 91 |
| Ripley | 75,615 88 | 102,981 09 | 27,365 21 | 7.750 34 | 5,149 69 |
| *Rush* | 186,866 43 | 234.708 43 | 47,902 00 | 14,922 21 | 17,653 99 |
| Scott | 38,939 47 | 35,453 47 | *3,486 00 | 2,578 95 | 2,421 78 |
| Shelby | 191,870 80 | 216,416 46 | 24 545 66 | 16,542 99 | 12,652 53 |
| *Spencer* | 101,488 87 | 107,121 76 | 5,632 89 | 5,738 76 | 5,515 01 |
| Starke | 54,286 86 | 72,542 27 | 18 255 41 | 4,897 74 | 17,631 41 |
| St. Joseph | 241,146 69 | 322,923 68 | 81,770 99 | 25,686 27 | 10,006 81 |
| *Steuben* | 100,789 51 | 99,976 57 | *892 94 | 8,146 83 | 1,763 25 |
| Sullivan | 126,862 46 | 135,506 78 | 8,644 32 | 10,581 23 | 4,977 85 |
| Switzerland | 52,021 02 | 52,443 04 | 422 02 | 4,317 06 | ..... |
| *Tippecanoe* | 385,633 72 | 448,832 03 | 63,198 31 | 21,932 81 | 23,826 03 |
| Tipton | 88,909 62 | 92,386 02 | 3,476 40 | 8,917 09 | 2,259 48 |
| *Union* | 89,815 24 | 127,391 75 | 37,576 51 | 3,913 55 | 9.587 98 |
| *Vanderburgh* | 374,898 85 | 501.323 31 | 126,424 46 | 35,763 38 | 17,734 69 |
| *Vermillion* | 85,604 02 | 110,547 72 | 24,943 70 | 6,223 04 | 10 591 39 |
| *Vigo* | 343,546 80 | 389,790 98 | 46,244 18 | 24,501 26 | 16,251 39 |
| *Wabash* | 177,100 69 | 228,015 50 | 50,914 81 | 16,879 00 | 9,209 99 |
| *Warren* | 107,827 76 | 146,733 69 | 38,905 93 | 8,581 60 | 11,661 94 |
| Warrick | 104,381 08 | 107,657 02 | 3,275 94 | 5.977 80 | 3,769 46 |
| Washington | 99,736 21 | 114,037 81 | 14,301 60 | 5,813 83 | 4,544 75 |
| *Wayne* | 336,819 06 | 405,159 23 | 68,340 17 | 18,774 35 | 22,602 24 |
| Wells | 133,902 53 | 130,005 39 | *3,897 14 | 11,040 03 | 4,730 95 |
| White | 118,283 83 | 126,547 71 | 8,263 88 | 11,804 21 | 6,768 95 |
| Whitney | 132,525 08 | 166,098 22 | 33,573 14 | 12.068 48 | 10,192 25 |
| Total | $14,511,146 38 | $17,510,428 64 | $2,999,282 26 | $1,230,547 73 | $987,203 28 |

The increase of the State tax shown in preceding table includes the 12 cents levied for State purposes and the 6 cents levied for the maintenance of the benevolent institutions, these being the only taxes that go to the current expenses of the State government. The State school tax (16 cents) is all apportioned back to the counties for common school tuition, and is properly a local tax. The increase of the State school tax in 1891 is $752,027.17, and as the enumeration will be substantially the same as last year, (763,207) there will be 95 cents per school child distributed to the counties. The local school taxes should have been decreased to this extent.

As the total increase of taxes is $2,999,282.26, and the total increase of State taxes is $1,230,547.73, there has been an increase of $1,768,734 53 of local taxes, which is distributed as follows:

FORTY-SIX REPUBLICAN COUNTIES.

| | |
|---|---|
| Total increase of taxes | $1,865,030 84 |
| State taxes increase | 606,755 13 |
| Local taxes increase | $1,258,265 13 |

FORTY-SIX DEMOCRATIC COUNTIES.

| | |
|---|---|
| Total increase of taxes | $1,134,251 42 |
| State taxes increase | 623,792 60 |
| Local taxes increase | $ 510,458 82 |

Of the increase of local taxes in Democratic counties it will be seen that $297,156 92 occurs in Marion county, and $213,291.90 in the remaining forty-five counties. This is largely due to increases by Republican trustees, town boards and school boards in those counties; thus, in Marion county the Republican school board levies $113,014.86 more taxes than last year, besides receiving about $32,000 more from the State school tax—which is the same as increasing local taxes $145,000 in the city of Indianapolis alone.

As shown in Appendix I, the valuation has increased more in the Democratic counties than in the Republican counties, and if the whole increase of taxes were due to the law the taxes would increase in the same proportion. It will be observed that the State taxes, which are at the same rate everywhere, increase in that proportion. But the increase of taxes in the Republican counties is actually $747,806 31 greater than in the Democratic counties, which shows conclusively that the law was not responsible for it.

Taking the counties separately, it will be observed that in ten of them (nine Democratic and one Republican) there has been a decrease of the total taxes paid. In five of them (four Democratic and one Republican) the increase on railroads alone is greater than the total increase of taxes paid. In these fifteen counties individuals pay less taxes, in the aggregate, than formerly. In thirty counties (seven Democratic and twenty-three Republican) the increase of railroad taxes is greater than the State increase, and in these, if there had been no increase of local taxes, individuals would certainly have paid less taxes than before. This shows the effects of the increase on railroads alone, there being no convenient mode of ascertaining the increase on other corporations. If the increase on banks, street railroads, mining and manufacturing corporations, etc., could be shown, a number of the other counties would probably present the same result.