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## STUDIES IN TAXATION

### GENERAL PROPERTY TAX

The last meeting of the North Carolina Club was devoted to a discussion of the general property tax. The discussion centered around a paper presented by Mr. Ralph C. Hon, a graduate student in the school of commerce. An abstract of Mr. Hon's paper follows.

The importance of the general property tax in the state of North Carolina is indicated by the fact that ninety-seven percent of the revenue of the counties and their subdivisions is derived from this source. It is particularly essential that the people of the state give this tax considerable attention in the near future because it will be their duty, in November, to vote upon a proposed amendment to the state constitution which would permit the General Assembly to classify intangible personal property and give it a lower rate than tangible property.

The history of every nation reveals the use of the general property tax during the agricultural stage, but equally universal is its discard when a more complex economic structure is attained. This primitive method of taxation was fairly successful under the conditions for which it was framed, when the property owned by different individuals was relatively homogeneous both in quantity and quality; but it is ill adapted to our modern organization which includes numerous types of wealth, conferring vastly different amounts of tax-paying ability upon their owners.

### Criticisms of the Tax

Many valid criticisms are hurled at this tax, one of the most pertinent of which is the fact that it constitutes, by its very nature, an incentive to dishonesty. The average rate in the state is slightly over two percent which constitutes a burden on four percent investments (for example bank deposits) equal to that of a fifty percent income tax. Most property owners appreciate the value of the services rendered by their local governments and are willing to assume their fair share of the burden, but when they realize that other people are not listing property which can be hidden, they find it easy to justify themselves in following a similar policy as a matter of self-defense. In this manner perhaps a majority of our taxpayers render themselves guilty of perjury, since most states (including North Carolina) which continue to use the general property tax, require all taxpayers to sign an oath that they have listed all property belonging to them or under their control. This accounts for the remark frequently heard that "If it is true that Jove smiles at the vows of a lover, it must be true that he laughs out loud at the oath of a taxpayer."

One could easily fill a book with such statements as the following, which is taken from the 1908 report of the Louisiana Tax Commission: "The system is condemned by political economists writing from a theoretical standpoint; by practical tax officials speaking from actual experience; by dozens of select tax commissions, appointed to investigate its workings. Indeed its failure is shown by testimony overwhelming in quantity, unimpeachable in quality, and, so far as we have read, without a dissenting voice." Of course it is easier to point out the defects of an existing system than it is to formulate a substitute which will function with marked superiority.

### Yield Tax

One plan, of which more will probably be heard in the future, provides for an increasing use of income or yield, rather than property, as a basis of taxation.

This is suggested with approval by Professor Seligman in his Essays in Taxation; recommended by the Manitoba Special Commission on the Real Property Tax (1926); and sponsored by Secretary Jardine in his annual reports to the President.

Farm taxes are levied almost entirely on the basis of capital value and bear little or no direct relation to current farm earnings. It is estimated by the National Bureau of Economic Research that the income of farmers in the state of North Carolina in 1920 was four hundred and fifteen million

dollars, while in 1921 it was only two hundred and thirty-five million. Yet there was no reduction in the tax rate.

A few states are relieving the burden on farm property by returning a part of the income, inheritance and other special taxes to the local districts in which they were collected. The state of New York, for example, returns fifty percent of its income tax in this manner and Wisconsin follows a similar practice. North Carolina's educational equalizing fund serves somewhat the same purpose although it is distributed on a different basis.

### Classification

Thirty-two of the states now have some form of classified property tax, but the classifications are so diverse that it is hard to draw conclusions as to the effectiveness of each.

By giving property which is less productive, or more easily hidden, a low rate many states get much larger amounts of such property on the tax lists than formerly. In some cases this increase is great enough to produce an increased revenue in spite of the low rate. However this study reaches the conclusion that such an experience has resulted only where the assessments were conspicuously low, before classification.

Minnesota is usually regarded as one of the most successful exponents of classification and it is true that from 1910, the year before she adopted classification, to 1926 her assessed intangibles increased from fourteen million to four hundred million dollars and her revenue from intangibles increased from three hundred eighty thousand to one million two hundred forty thousand. Equally significant is the fact that the average collection from citizens paying on intangibles dropped from \$61.25 to \$10.78. This indicates that from the standpoint of justice to the honest taxpayer Minnesota has a very superior system, but in spite of the fact that there is good reason for believing that there are more than twice as many intangibles in the state of Minnesota as there are in North Carolina, the latter state collects almost double the amount of revenue secured by Minnesota from that source.

Kentucky's record, from the standpoint of revenue, appears to be stronger than that of Minnesota but all the evidence studied indicates that if North Carolina adopts the proposed amendment, it must be justified on other than a purely revenue basis. With proper administration it might result in an increased amount of intangibles being listed, with a consequence that the burden would be more equitably distributed among holders of intangibles, but real estate owners would likely bear a heavier rather than a lighter burden.

### FARM MORTGAGES IN N. C.

Last week we presented a table showing the percent of mortgaged farms in each of the states in 1910 and in 1925. This week we are presenting similar information for the counties of North Carolina.

The state as a whole witnessed but a slight increase in the percentage of mortgaged farms from 1910 to 1925, the increase being from 18.3 to 19.3 percent. This is considering only farms operated by the owners. The percentage of mortgaged farms in North Carolina is far below the percentage for the United States as a whole, the latter figure being 36.1. This is partly due no doubt to the smaller amount of capital invested in a farm in North Carolina. Taking the United States as a whole owner-operated farms (land and buildings only) represent an average capitalization of \$8,018. In North Carolina the average is only \$3,741.

### Few in Mountains

That the extent of farm mortgages is closely correlated with the price of land is indicated by the relatively small percentage of mortgaged farms in the mountain counties and the larger percentage in the coastal plain and tidewater counties. High and increasing tenancy ratios tend of course to reduce the number of encumbered owners.

Dare county has only 73 owner-operated farms and none of these reported any mortgage indebtedness in

### KEEP AMERICA AMERICAN

Making America a better place to live in is keeping America American.

There is a brave adventure for every one of us in trying to put that over to the best of our several abilities. It is a big order—but there's not one of us so poor in imagination, so lacking in initiative, so wanting in observation that we haven't had ideas and worth-while ideas that would profit and improve our communities. You can think even in this fleeting moment of some way to make your city a better home for your children and your neighbor's children. Tie to it, stay with it, fight for it, see it through—and you will have done as much for America as any American can ever do for his country. No man deserves the name American who is not giving America more than he receives.—Hanford Macnider in World's Word.

1925. Several of the mountain counties reported very few mortgaged farms. Greene reported the largest percentage of encumbered farms, 39.8 percent. Of its 507 farms operated by owners 202 reported mortgage debt. In the main, however, it is the tidewater counties which showed the largest percentage of mortgaged farms.

Sixty-three counties showed a higher percentage of mortgaged farms in 1925 than in 1910. This is not necessarily a sign of retrogression. The mortgage in many cases may be due to the purchase of additional land or the construction of new buildings. In other cases it may represent greater facility in using credit, especially long-term credit, in farm operations.—Paul W. Wager.

### MADISON FARMERS

A good index to the tremendously significant change that is coming over agriculture in Western North Carolina can be had by reading the farm demonstration agent's column in The Marshall News-Record each week.

In the current issue of the Madison county newspaper for example, announcement is made that the banks of Marshall have just sent a committee consisting of the county agent, Earle Brintnall, and two other men to Eastern Tennessee to purchase milk cows which the banks will sell at actual cost to those now producing cream or who will produce cream for market purposes. "The banks," it is stated, "feel that the production of cream in Madison county needs to be encouraged. They feel that it will mean greater financial resource to the whole population of the county, both rural and urban, and that the backing of the financial institutions of the county will be well placed in encouraging farmers to produce cream."

The Madison demonstration agent is advocating "five cracker good cows or 100 cracker good hens, or both," on every Madison county farm. One farmer of the county received a check for \$17 for one delivery of cream last week. Another Madison farmer received a check for \$23 for 43 pounds of walnut meats which he had sold. Still another farmer is reported by Mr. Brintnall as making 242 pounds of tobacco on one-fifth of an acre, realizing for it a net sum of \$97 or slightly more than 40 cents a pound.—Asheville Citizen.

### N. C. AGRICULTURE

In 1927 North Carolina ranked seventh among the states in total value of farm crops according to preliminary estimates. The seven high-ranking states are:

Texas	\$729,754,000
Iowa	501,725,000
California	495,213,000
Illinois	385,052,000
Nebraska	378,819,000
Kansas	362,589,000
North Carolina	361,605,000

The value of each of several of North Carolina's leading crops and the rank of the state in the production of these crops is indicated below:

Rank	Crop	Value
1	Tobacco	\$120,744,000
1	Peanuts	9,467,000

2	Sweet Potatoes	8,117,000
2	Early Irish Potatoes	7,182,000
2	Soy Beans	2,397,000
3	Cowpeas	1,246,000
3	Cucumbers	688,000
5	Sorghum Sirup	2,236,000
6	Snap Beans	728,000
6	Green Peas	468,000
7	Cotton (lint)	83,568,000
7	Cottonteed	14,097,000
7	Strawberries	2,665,000
7	Peaches	2,210,000
7	Lettuce	785,000

### THE MURDEROUS AUTO

A total of 2,780 people were killed or injured in automobile accidents during the six months which ended December 31, according to figures compiled by the motor vehicle bureau of the State Department of Revenue. The report shows that 348 people were killed and 2,432 injured.

Of those killed, 216 were motorists and 132 pedestrians. There were 395 pedestrians injured by automobiles and 2,037 motorists. These deaths and injuries occurred in 2,009 accidents.

The following table shows the number of accidents, deaths and injured, occurring each month since the law requiring the bureau to tabulate these figures went into effect:

Month	Accidents	Deaths	Injured
July	312	41	384
August	352	40	443
September	316	61	343
October	349	71	470
November	339	67	406
December	341	67	386
Total	2,009	348	2,432

### MORTGAGED FARMS IN NORTH CAROLINA

#### Percent of Owner-Operated Farms Mortgaged, 1910 and 1925

The following table indicates the percentage of owner-operated farms in North Carolina encumbered by mortgage in 1910 and in 1925. The counties are ranked according to the percentages in the latter year.

In 1910 mortgage debts were reported on 18.3 percent of all the farms in the state operated by owners; in 1925 mortgage debts were reported on 19.3 percent. In thirty-seven counties the percentage of mortgaged farms decreased in the fifteen-year period and in sixty-three counties the percentage increased.

Dare county reported no mortgaged farms in 1925 and Graham only 4.3 percent of its farms. At the other extreme Greene reported 39.8 percent mortgaged. In the main the mountain counties have the fewest mortgaged farms and the tidewater counties the most.

Paul W. Wager  
Department of Rural Social-Economics, University of North Carolina

Rank	County	Percent of farms mortgaged 1910	Percent of farms mortgaged 1925	Rank	County	Percent of farms mortgaged 1910	Percent of farms mortgaged 1925
1	Dare	5.9	0.0	51	Columbus	16.8	19.0
2	Graham	1.6	4.3	52	Rutherford	13.5	19.1
3	Buncombe	13.1	7.0	53	Robeson	9.2	19.4
4	McDowell	11.0	8.8	54	Franklin	19.2	19.5
5	Jackson	6.6	8.9	55	Pender	16.9	19.7
6	Cherokee	4.9	10.3	56	Wilson	21.0	19.8
7	Swain	3.2	10.4	57	Polk	17.0	20.4
8	Lincoln	18.0	10.7	58	Henderson	21.4	20.5
9	Montgomery	11.7	11.6	59	Sampson	17.5	20.7
10	Burke	15.4	12.1	60	Person	16.0	20.8
11	Haywood	9.9	12.2	61	Alexander	25.5	20.9
12	Madison	11.0	12.5	62	Rowan	25.8	21.2
13	Wilkes	11.5	12.7	63	Caldwell	10.1	21.3
14	Alleghany	7.6	12.8	64	Hertford	30.0	21.5
15	Clay	4.3	12.9	65	Anson	22.9	21.9
16	Avery	—	13.2	66	Iredell	21.5	22.0
17	Transylvania	9.4	13.3	67	Stokes	25.7	22.6
18	Rockingham	19.6	13.7	68	Nash	21.1	23.2
19	Macon	7.7	13.8	69	Yadkin	23.5	23.4
20	Brunswick	10.9	14.1	70	Union	16.2	23.9
21	Currituck	12.8	14.1	71	Harnett	11.0	24.0
22	Yancey	11.6	14.5	72	Hoke	—	24.1
23	Durham	15.7	14.6	73	Johnston	24.0	24.4
24	Forsyth	25.3	14.6	74	Wake	21.9	24.8
25	Mitchell	10.3	14.8	75	Pasquotank	25.3	24.9
26	Alamance	18.0	15.2	76	Gates	29.8	25.0
27	Bladen	10.4	15.3	77	Pitt	30.9	25.1
28	Perquimans	35.0	15.7	78	Onslow	13.7	25.2
29	Carteret	12.6	16.0	79	Wayne	27.6	25.5
29	Orange	14.2	16.0	80	Bertie	29.9	25.7
31	Chatham	13.3	16.2	81	Surry	24.8	26.0
32	Ashe	7.6	16.5	82	Edgecombe	21.3	26.2
32	Davie	22.6	16.5	83	Warren	20.6	26.5
34	Cumberland	14.0	17.0	83	Washington	32.9	26.5
35	Cabarrus	21.9	17.2	85	Duplin	23.8	26.9
35	Guilford	21.1	17.2	85	Vance	29.0	26.9
37	Moore	9.0	17.5	87	Mecklenburg	24.7	27.1
38	Watauga	9.2	17.6	88	Chowan	34.6	27.3
39	Gaston	17.7	17.8	89	New Hanover	22.0	28.2
39	Northampton	25.2	17.8	89	Pamlico	27.2	28.2
41	Richmond	12.1	18.0	91	Martin	30.2	29.8
42	Scotland	8.4	18.1	92	Beaufort	25.6	30.3
42	Caswell	17.8	18.1	93	Tyrrell	38.7	30.6
44	Davidson	25.6	18.2	94	Craven	18.6	30.8
45	Cleveland	15.3	18.4	95	Camden	24.7	31.5
45	Halifax	22.7	18.4	96	Granville	26.1	32.0
47	Stanly	21.9	18.7	97	Lenoir	32.3	33.3
48	Randolph	20.0	18.8	98	Yone	23.9	36.5
49	Catawba	21.3	18.9	99	Hides	28.8	37.7
49	Lee	12.6	18.9	100	Greene	25.7	39.8