Minutes of the
Tax Revision Council
MINUTES OF THE
ORGANIZATION MEETING
OF THE
TAX REVISION COUNCIL

June 6 and 7, 1935.

Hearing Room of the Ways and Means Committee
House Office Building — Washington, D. C.

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The Tax Revision Council

FEDERAL MEMBERS
Hon. Henry Morgenthau, Jr., Secretary of the Treasury
Senator Pat Harrison, Chairman, Senate Finance Committee
Hon. Robert L. Doughton, Chairman, House Ways and Means Committee
Senator William H. King, Chairman, Subcommittee on Conflicting Taxation, Senate Finance Committee
Hon. Fred M. Vinson, Chairman, Subcommittee on Conflicting Taxation, House Ways and Means Committee
Hon. George C. Haas, Director of Research and Statistics, Treasury Department
Hon. Herman Oliphant, General Counsel, Treasury Department
Hon. Lovell H. Parker, Chief of Staff, Congressional Joint Committee on Internal Revenue Taxation

STATE MEMBERS
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Hon. William B. Belknap, President, American Legislators’ Association
Hon. Mark Graves, President, New York State Tax Commission
Hon. Henry F. Long, Tax Commissioner, Massachusetts, and President, National Tax Association
Hon. C. H. Morrissett, Tax Commissioner, Virginia
Hon. Henry W. Toll, Executive Director, Council of State Governments
Hon. George Woodward, Member, Pennsylvania Legislature
Hon. George F. Yantis, Member, Washington Legislature

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Hon. Leonard S. Leavy, Controller, City and County of San Francisco, Representing United States Conference of Mayors
Hon. Daniel W. Hoan, Mayor of Milwaukee, Representing American Municipal Association
Hon. C. A. Dykstra, City Manager, Cincinnati, Representing International City Managers’ Association
Hon. Charles J. Fox, City Auditor, Boston, Representing Municipal Finance Officers’ Association
Hon. Kenneth J. McCarren, Vice-President, Detroit Board of Assessors, Representing National Association of Tax Assessing Officials
Hon. Guy Boyington, County Judge, Astoria, Oregon, and Member of the State Planning Board of Oregon
Hon. Otis Miller, District Attorney, Anson, Texas
Hon. J. K. Warkentin, County Clerk and Assessor, Marion, Kansas
WAYS AND MEANS

Gathered around a long table in the room ordinarily reserved for the Congressional Committee which is faced with the thankless task of tailoring a revenue program to fit broad-shouldered expenditures, members of the Tax Revision Council met in Washington on June 6 and 7.

Their problem was not how to raise money but how to reconcile the methods of taxation now used by the three levels of government. The proposed line of attack is discussed in the minutes which begin on the opposite page.

Sitting at the far end of the table is Secretary of the Treasury Morgenthau, and to his left is Senator Mastick of New York. Proceeding in that general direction—to the left, a Hearst heresy—we meet, in the order of their appearance, Messrs. McCarren, Haas, Toll, Vinson, Parker, Boyington, Warkentin, Yantis, Moffett, Gallagher, Martin, Gaston, Woodward, Graves, Belknap, Morrisett, Long, Mrs. Klotz, private secretary to Mr. Morgenthau, Mr. Oliphant, and the stenotypist.
Thursday Morning Session
June 6, 1935.

The first meeting of the Tax Revision Council, held in the hearing room of the Ways and Means Committee, House Office Building, Washington, D. C., convened at eleven A.M., Thursday, June 6. Mr. Henry W. Toll, Executive Director of the Council of State Governments, called the meeting to order.

Mr. Toll opened the meeting by reading messages from several members who were unable to be present. Charles J. Fox, Auditor of Boston, expressed his interest and desire to share in the work of the Council; Judge Otis Miller of Anson, Texas, remarked that the organization gave him real hope at a time when something needs to be done to straighten out tax laws; and C. A. Dykstra, City Manager of Cincinnati, expressed his genuine interest in the project and commented that he felt a study of the functions of the different governmental levels in the United States was essential.

Upon motion of Mr. Long, Senator Mastick was elected temporary chairman, and Mr. Toll, temporary secretary. The question of permanent organization was discussed, and it was decided that a committee should be appointed to recommend a permanent organization, and to nominate officers.

Senator King opened the discussion by calling attention to a resolution which he had offered in 1921, for a federal-state conference on problems of conflicting taxation. He expressed interest in this new effort to solve this problem which is particularly aggravating at the present time because of the fiscal deficits of federal, state, and local governments.

Mr. Doughton, Chairman of the House Ways and Means Committee, announced his complete sympathy with the project of the Council, and expressed his desire to aid in its work.

Mr. Vinson, Chairman of the Subcommittee on Double Taxation, commended the forward step of practical minds meeting together to harmonize the viewpoints of federal, state, and local governments. He hoped that it would be of real assistance in relieving the tax burden which has been pyramided to the breaking point. Chairman Mastick commented on the cordial cooperation of these congressional committees, and on Mr. Toll's energetic interest in tax revision work. He expressed it to be the desire of the Council to try to harmonize the various interests involved in the tax field.

Mr. Toll suggested that a discussion of the Tax Revision Council be prefaced by the presentation of summaries of research work already conducted by the most important groups in the field.

Mr. Parker spoke of the report on conflicting taxation, published by the Congressional Committee in 1933, and expressed his hope for practical utility of the future work of the Tax Revision Council.

Mr. Martin presented a report of the work of the Interstate Commission on Conflicting Taxation, which was established by the First Interstate Assembly in 1933. The written report follows:

Recognizing that the multiple tax levies of federal, state, and local government introduce acute problems for government and for taxpayers, the American Legislators' Association issued a call for an assembly of the states to convene in Washington February 3 and 4, 1933, to consider conflicting taxation problems. Every state was invited to send three delegates to this meeting: a house member, a senator, and a fiscal official named by the governor. Delegates from more than thirty of the states attended. This First Interstate Assembly was addressed by several eminent students of taxation representative of diverse views regarding the proper approach to a solution of problems raised by over-
lapping tax levies. Since these discussions made it apparent that the situation was too complex to justify snap judgment, the Assembly directed the appointment of a commission composed of ten or more state legislators and state tax administrators, which, with appropriate secretarial and technical assistance, would study various proposals for reducing or eliminating conflicting taxation.

The plan contemplated that a Second Interstate Assembly would be called to consider the work of the Commission. This assembly convened in Washington in the latter part of February, 1935. It adopted the recommendations of the Commission as its own and adopted several resolutions introduced from the floor. Among the proposals introduced from the floor was one recommending federal administration of a general sales tax, which the Commission, as indicated below, had declined to recommend.

The Second Interstate Assembly also adopted a resolution condemning the type of federal dictation regarding state taxation which is found in the Hayden-Cartwright highway aid law, Section 12. This resolution, although it came from the Planning Board of the Council of State Governments, had been considered jointly by the Commission and the Planning Board. Neither the Commission nor the Interstate Assembly proposed any judgment regarding the proper utilization of gasoline and motor registration tax revenues, but the resolution adopted by the latter objected emphatically to the attempt by Congress to control state fiscal affairs not directly related to the federal subvention.

Character of the Commission’s Work

The activities of the Interstate Commission on Conflicting Taxation fall primarily in three fields: (a) research, (b) conference and deliberation, and (c) negotiation to secure enactment of proposed legislation.

The research work is carried on at the Chicago offices and is primarily designed to estimate the influence of proposed changes in the tax system which might reduce the evils of conflicting levies. Since 1933, the Commission’s staff has produced a number of formal reports, and a considerable number of articles for State Government and other technical and popular periodicals. Prior to the autumn of 1934, the Commission maintained a tax expert assisted by the regular members of the American Legislators’ Association staff. Since September 1, 1934, a research staff under the direction of James W. Martin has been developed. It now includes five persons in addition to secretarial and clerical workers utilized jointly with other agencies.

Since its appointment in February, 1933, the Commission has held seven meetings. It has also held three informal sessions with members of Congress. Formal meetings have usually lasted two days, with sessions in the mornings, afternoons, and evenings. Sometimes problems of organization and procedure were discussed; at other times

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This section reads as follows: “Since it is unfair and unjust to tax motor-vehicle transportation unless the proceeds of such taxation are applied to the construction, improvement, or maintenance of highways, after June 30, 1935, Federal aid for highway construction shall be extended only to those states that use at least the amounts now provided by law for such purposes in each state from state motor vehicle registration fees, licenses, gasoline taxes, and other special taxes on motor-vehicle owners and operators of all kinds for the construction, improvement, and maintenance of highways and administrative expenses in connection therewith, including the retirement of bonds for the payment of which such revenues have been pledged, and for no other purposes, under such regulations as the Secretary of Agriculture shall promulgate from time to time: Provided, That in no case shall the provisions of this section operate to deprive any state of more than one-third of the amount to which that state would be entitled under any apportionment hereafter made, for the fiscal year for which the apportionment is made.

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specific proposals for tax reform were considered. Usually the deliberative work of the Commission has been carried on in executive session. Occasionally, however, consultants have been invited to sit with the Commission. On one occasion it met jointly with the Planning Board of the Council of State Governments.

The Commission has conducted certain negotiations with members of Congress, particularly with the leaders of the House Committee on Ways and Means and the Senate Finance Committee. The chairman and the secretary of the Commission presented the Commission's viewpoint on gasoline and liquor taxation to the Committee on Ways and Means. On another occasion the Commission met jointly with members of the two congressional committees and administration representatives to discuss the entire problem of conflicting taxation and to make known to the federal representatives its views on specific questions.

Viewpoint of the Commission

The work of the Commission has been deliberate. Every important question on which the Commission has expressed a judgment has been the subject matter of staff investigation and of sustained discussion at the Commission meetings.

The viewpoint of the Commission as to techniques for dealing with conflicting tax problems has been and is eclectic. The Commission has recognized, for example, that maintenance of fiscal responsibility necessitates state and local administration of certain taxes, even though on directly economic grounds tax administration would be more effective if centralized in the hands of the federal government. The so-called crediting device employed in the field of death taxation under the Federal Revenue Act of 1926 has been recognized as an appropriate procedure, and the Commission has examined, sympathetically, proposals for federal administration of other taxes with state sharing of revenues. Other techniques within the scope of the Commission's assignment have been discussed and recognized as possible approaches, if their appropriateness to a particular situation can be assured.

The actual findings of the Commission may be regarded as falling in two categories: In the first place, the Commission has considered and recommended action respecting certain immediate adjustments designed to alleviate existing tax conflicts; in the second place, it has examined certain longer-run problems concerned mainly with the development of statistical and other information and with machinery for tax study and negotiation.

Proposals for Immediate Adjustments

The Commission appreciated the gravity of federal-state conflicts in personal income taxes, death taxes, and corporation taxes; but it regarded these as at once less obvious and more difficult than the conflicts incident to comparatively non-technical tax measures. Consequently it first tackled the problems of conflicting gasoline, electric, current, and other selective excise taxes. At its first meeting, in fact, it made certain tentative proposals for what may be designated as tax "swapping" processes as between the federal government and the states. When these proposals were made, however, they were treated as provisional, and staff investigations were initiated to make possible reconsideration at a later meeting. Meantime, the Volstead Act was amended to provide for 3.2 beer and wine; and later the Prohibition Amendment was repealed.

Separation Proposals

After careful study, the Commission definitely accepted the view that there should be a measure of separation of sources of federal and state revenues. This viewpoint was based partly on administrative considerations. It is prima facie uneconomical to provide duplicate federal and state gasoline or tobacco tax administrative machinery; and, in the absence of some strong consideration to the contrary, administrative economy should govern. Also, the Commission recognized that units of government experience a sense of financial responsibility when they levy and administer their own taxes which they do not have if another unit of government levies and collects taxes they are later to spend. Finally, the Commission thought that any other plan for integrating selective excise taxes would probably mean administration by the federal government, which, it was believed, would in the
long run render the states liable to undesirably increased congressional restrictions.

These and other considerations led the Commission to seek specific, important points at which agreement to separation could be reached. After conferring with taxation leaders in Congress, studying reports prepared by the Commission’s technical staff, and careful deliberation by the Commission members, it was unanimously proposed: (a) that the federal government should abandon gasoline taxation; (b) that no additional tobacco taxes should be adopted by the states for revenue purposes; (c) that Congress should leave electric energy taxes for the exclusive use of the states; and (d) that, since the federal government has imposed a heavy tax on beer, other units of government should refrain from levying heavy taxes except for regulatory purposes.

Based on Concrete Evidence

In the case of each of these elements in a program of separating sources of federal and state revenue, the Commission based its proposals on concrete evidence of experience or logic. States have demonstrated that they can effectively administer gasoline taxes. Also, the motor fuel tax has traditionally been closely related to the highway building and maintenance function performed by the states and their subdivisions. Moreover, in this case, there was a clear historical background of state taxation; so it could be argued that the states had preempted the field of gasoline taxation.

On the other hand, the federal government had long depended largely on tobacco tax revenues. Federal administration has proved effective; state administration has proved relatively ineffective. Consequently, from both the historical and the administrative viewpoints, the Commission found a good case for exclusive federal tobacco taxation.

For many years the taxation of electric utilities as such has been, exclusively, by the states or their subdivisions. The Federal Revenue Act of 1932, by imposing an excise on the consumption of electric current, began to duplicate state exploitation of this field of taxation. Since, from an economic and an administrative viewpoint, the federal government has inherent economic, legal, and administrative advantages over the states in the field of taxation generally, the Commission deemed it wise that the federal government, at the earliest possible moment, relinquish this source of revenue to the states.

Beer and Liquor Taxes

Alcoholic beverages, prior to the prohibition era, were subject to federal taxes but not ordinarily to state and local taxes, other than regulatory licenses. The alcoholic beverage business is so conducted that, while state taxes are feasible, they are likely, if imposed at a high rate, to engender bootlegging. In the light of these considerations, the Commission proposed that beer taxes should be levied by the states only for regulatory purposes, unless at a very low rate.

Prior to the enactment of the federal liquor tax, the Commission proposed an integrated plan of federal-state liquor taxation, under which the federal government would collect the tax and distribute a part of the proceeds to the states. Owing to disagreement regarding the method of distribution, this proposal was not accepted. Since the enactment of liquor tax legislation by the federal government, the Commission has not completed its canvass of the field; and consequently it has refrained from making any recommendations.

General Sales Taxes

Confronting the Commission from the time of its establishment has been the state general sales tax problem. Certain interstate conflicts, of comparatively minor economic significance, are of major importance politically. This is particularly true of boundary difficulties due to constitutional restrictions on the taxation of interstate commerce and of competition in the field of retail merchandising offered by mail order concerns usually situated outside the state concerned. When the Commission first considered this problem it reached the conclusion that some relief could be secured by the adoption of
the so-called Harrison Resolution to authorize the non-discriminatory taxation of interstate commerce by the state into which the sale was made. This resolution was not adopted; and at the same time the problem which precipitated it had become increasingly acute, due to the increased use of general sales taxes. Consequently, the Commission caused its research staff to investigate the possibilities of federal administration and state sharing of revenues. It was found that, while federal administration would be economical and would elide existing legal difficulties, the plan has serious shortcomings. In the first place, it would not, on the basis of a reasonable rate structure, replace existing state sales taxes in certain rich states with rates of 2.5 to 3 per cent. In the second place, it would give certain states, now having a low-rate or no sales tax, more money than they really require. Finally, to mention only one other consideration, it would employ throughout the country a comparatively undesirable tax measure which otherwise need be applied in only part of the states. After careful consideration of the research and of political factors involved, the Commission decided to make no recommendation on this point.

**Income Taxes**

One of the techniques for integrating

*This measure reads as follows: All taxes or excises levied by any state upon sales of tangible personal property, or measured by sales of tangible personal property, may be levied upon, or measured by, sales of like property in interstate commerce, by the state into which the property is moved for use or consumption therein, in the same manner, and to the same extent, that said taxes or excises are levied upon or measured by sales of like property not in interstate commerce: Provided, That no state shall discriminate against sales of tangible personal property in interstate commerce, nor shall any state discriminate against the sale of products of any other states: Provided further, That no state shall levy any tax or excise upon, or measured by, the sales in interstate commerce of tangible personal property transported for the purpose of resale by the consignee: Provided further, That no political subdivision of any state shall levy a tax or excise upon, or measured by, sales of tangible personal property in interstate commerce. For the purpose of this Act a sale of tangible personal property, transported or to be transported, in interstate commerce shall be considered as made within the state into which such property is to be transported for use or consumption therein, whenever such sale is made, solicited, or negotiated in whole or in part within that state. the federal and state tax systems is found in the crediting device utilized under the Federal Revenue Act of 1926. The Commission has been concerned to know whether this plan could be extended to the field of income taxation. After a preliminary canvass, which revealed grave statistical difficulties of predicting the consequences of any such plan, the Commission discarded, for a time, this approach to corporation income tax conflicts. More careful investigation and more sustained consideration was devoted to the possibilities of extending the crediting device to individual income taxes. Among the principal difficulties encountered were problems of distributing benefits among the states, constitutional difficulties facing many of the commonwealths, and especially dangers to the integrity of the states from federal restrictions necessary in a federal crediting statute if the maximum of economic and administrative relief were to be secured.

It was found, too, that the effectiveness of the crediting device in securing relief from existing diversities varies directly with the extent of federal dictation incorporated in the crediting statute. To eliminate double taxation from varying allocation formulas a uniform prescription as a condition of the credit would be required. To reduce expenses and difficulties from accounting diversities, a federal prescription respecting procedure would be necessary. And so with other interstate conflicts.

The Commission finally agreed to propose for consideration a crediting plan, which would involve a minimum of federal interference. This plan would make all distinctly personal state and local taxes eligible for the credit and would not incorporate uniformity requirements. The Commission recognized that such a device would result in a minimum of relief from existing income tax conflicts; but it nevertheless believed the experiment worth consideration. Consequently, in reporting this proposal, the Commission recommended that the Second Interstate Assembly consider the problem rather than that it adopt this particular plan.

**Long-Range Proposals**

The more fundamental and long-range proposals for alleviation of tax conflicts re-
late to reciprocal exemptions, accumulation of data, and organization for study and deliberation. Respecting the exemption problem, the Commission has offered no definite recommendations; but, at the time the Commission's report was submitted to the Second Interstate Assembly, two proposals for modification of reciprocal federal-state exemptions were offered and adopted. The first contemplated removal of exemptions provided for securities and salaries of government officials and employees; and the second proposed that the federal government authorize the taxation of private property on federal reservations.

The work of the Commission has been handicapped from the beginning by a lack of statistical information regarding state and local finance. In consequence of this difficulty the Commission made the following recommendations.

In developing a long-term program for dealing with federal-state and interstate tax difficulties, the several states can immediately lay the foundation for progress. The first necessity, perhaps, is the development in each state of more adequate financial statistics of state and local governments. At the present time, only about one-fourth of the states make any pretense of collecting all of the statistics of state and local taxation, and even in these states the statistics are in some cases meager and unsatisfactory. Each state should certainly know the total amount of tax revenues of various classes which it raises by state or local action. It should know, also, the facts respecting the distribution of its state and local expenditures and those regarding public debt. In addition, it is desirable that the state assemble more complete information regarding functional activities. Incidentally, this recommendation to the states contemplates more generous cooperation with the statistical agencies of the federal government, particularly with the Bureau of the Census.

Information Needed

In the second place, many of the states need to conduct comprehensive investigations of their own state and local tax problems. A valuable incidental result will be the development of information needed by the Tax Revision Council proposed below. Some of the commonwealths, as for example Connecticut, New York, North Carolina, and others, have already conducted such studies of state and local taxation. More than half of the states, however, have not recently conducted thorough studies of their tax situations. These states, it is believed, should in the near future provide for official investigations looking toward improvement in the local tax situation and incidentally providing data necessary for any thorough-going interstate investigation.

Partly as an outcome of these two suggestions and partly as a result of current governmental activity, each state should conduct, continuously, a campaign of public education regarding state and local taxation. The educational program along this line not only should contemplate popularizing information as to tax problems, but it should also supply the public with full information on governmental expenditures and the administration of public debt.

The third long-range problem before the Commission has been the development of some mechanism whereby there could be sustained investigation of conflicting taxation by an agency officially representative of federal, state, and local government. The Commission originally thought this might be supplied by the appointment of a federal commission on taxation to confer with the Interstate Commission on Conflicting Taxation and to carry on such independent studies as it deemed appropriate. As a result of its continued study, however, the Commission reached the opinion that a full-fledged, joint federal, state, and local commission representative of all the principal units of government would offer larger possibilities of constructive results than would two or more bodies functioning independently. Hence, the Commission recommended to the Second Interstate Assembly a provision for a Tax Revision Council in which officials of all levels of government would participate. This present body is the result of that recommendation and of the cordial cooperation of federal officials on the one hand and local officials on the other.

The work of the Interstate Commission on Conflicting Taxation has not been planned beyond the summer. In the next few months it is anticipated that certain studies already under way will be completed. One investigation will provide the
facts necessary to a re-canvass of the alcoholic beverage tax problem. A second will concern the effect of the Revenue Act of 1932 and of the Revenue Act of 1934 on the operation of the crediting device in the death tax field. This study will involve consideration of the effects of the crediting device immediately following its extension in 1926, but it will concern more particularly the influence of recent estate tax legislation and the wisdom of extending the principle of the credit to the entire federal estate tax. A third investigation, now under way, represents an attempt to ascertain the influence of proposed policies for relieving conflicting taxation on the fiscal situation in the federal government and each of the forty-eight states. The attempt will be made in this investigation to extend the scope of an earlier study and thereby introduce consideration of certain new problems.

In the course of the summer, too, the Commission hopes to complete a general report of its activities from the time it was formed in February, 1933; to August, 1935. According to tentative plans the report will include a formal statement by the Commission itself, followed by an integrated summary of the research which forms the background of the Commission’s recommendations.

Mr. Long, President of the National Tax Association, outlined the main object of the National Tax Association over a long period of years as the furnishing of a place where people interested in taxation could come together and exchange thoughts. It publishes its proceedings and also a bulletin, which furnish real sources of information for studies which other people may make. At the present time, the so-called Bond Committee is working on a report to the National Association on coordinated federal-state taxing systems.

Mr. Long, in his capacity of Commissioner of Taxation in Massachusetts, then expressed his interest in seeing that the states get a large share of the revenue in any apportionment. He noted a Massachusetts preference for taxation of real estate and tangible personal property by the local community.

Mr. Graves, former President of the National Tax Association, and now President of the New York State Tax Commission, announced the interest of his commission in the work of the Tax Revision Council. He alluded to the Tax Foundation, which issues the publication “Tax Systems of the World.”

Mr. McCarren of Detroit expressed interest on the part of the National Association of Tax Assessing Officials, and commented on the successful effort to secure legislation permitting local assessors to examine federal income tax reports. He pointed out an example of the problem of assessment of foreign corporations which had been raised in Michigan, and noted the importance to the cities of Michigan of tapping this source of tax revenue. If the state and cities would cooperate on the taxation of these corporations, it would result in greater revenue for both levels, a point of view which seemed more reasonable than for one or the other to seek a lion’s share of the tax revenue from this source.

Mr. Boyington expressed his concern in the problems before the Tax Revision Council as a county official, who has gone through the complete cycle of levying, collecting, spreading, and assessing property taxes. In his opinion, the property tax has broken down, and some substitute must be found.

Mr. Warkentin also spoke as a county officer, and gave his opinion that ad valorem taxes had been overdone by state, county, town, school district, and other taxing subdivisions. Delinquencies in real estate taxes are increasing rapidly, and some action must be taken.

Commissioner Morrissett of Virginia, remarked that his state had successfully separated state and local sources of revenue, but that real estate owners were still looking for relief. The state is now constructing roads, and assuming increasing expenses for schools.

Mr. Yantis, of Washington, expressed his desire that the group adopt a definite and immediate goal. He declared himself in favor of a constitutional amendment which would reduce the sharp division of authority between the federal and state governments. He also commented on the obstacles furnished by the press in that, generally, they consider government almost an enemy of the people, and by businessmen who complain unreasonably about tax
problems. He noted that the tax limitation imposed in his state had the immense practical advantage of compelling action, and shifting a large portion of the expense formerly borne by counties and school districts to the state, by providing as a substitute for property taxes, such other means of raising revenue as sales taxes. He thought it probable that Washington wished to add an income tax to its sales tax.

Mr. Toll suggested that the afternoon session be devoted to the question of methods of attacking this problem. He suggested a long-term program, which might alter the existing basic status, and a short-term program which might be used as a demonstration project.

Chairman Mastick then appointed the following members of the Committee on Permanent Organization: Mr. Graves, Chairman, Mr. Parker, Mr. Haas, Mr. Boyington, Mr. Warkentin, Mr. Toll and Mr. Mastick were ex officio members of this committee.

The meeting recessed at twelve forty-five P.M.
Thursday Afternoon Session

June 6, 1935.

The meeting convened at two forty-five P.M., Chairman Mastick presiding.

Mayor LaGuardia commented that he had made the suggestion in New York State that there be one tax collecting agency, and he thought this same idea might be useful along national lines.

Mr. Graves gave the report of the committee on permanent organization, which proposed the following officers:

- Chairman, Henry Morgenthau, Jr., Secretary of the Treasury,
- Vice-Chairman, Senator Seabury C. Mastick of New York,
- Second Vice-Chairman, Kenneth J. McCarren of Detroit,
- Secretary, Henry H. Toll.

On motion of Mr. Long, seconded by Mr. Parker, the report of the committee was accepted, and unanimously approved.

Mr. Long then began a round table discussion by expressing his belief that units of government should be as close as possible to the people who use them. For example, education should be a local function, relying on the real estate tax. Possibly functions such as the protection of public safety might be carried on by a federal agency and filtered down through other agencies, perhaps supported by a tax on industries. The long-term planning should include a study of what functions might best be exercised by the federal government.

Mr. Morrisett declared his belief that the Council should undertake an exhaustive study of the functions of government, because the taxation question rests on the allocation of functions. On the other hand, varying conditions make it unwise to undertake the study of allocation of functions between state and local governments.

Mr. Graves expressed his belief that a study should be made of the functions of government as exercised by the federal government on the one hand; and by state and local governments on the other.

Chairman Mastick commented that while it might not be within the purview of the Council to study the relationship of state to local government, nevertheless, something might be drawn from the experience of each state which might be helpful to others.

Mr. McCarren also noted his uncertainty about any attempt to reallocate functions between states and cities.

On request of Chairman Mastick, Mr. Toll defined his idea of a long-term program as a comprehensive inquiry concerning the harmonizing and integrating of the tax systems of the government of the country, viewing all units of government as part of a single governmental structure. He pointed out a need for machinery of constant, continuing contact between the levels of government.

Chairman Mastick asked Mr. Haas to enumerate the functions to which the federal government is now contributing. Mr. Haas answered that it was difficult to name any function to which the government is not contributing. Education, agriculture, roads, police, public health, and many other functions receive federal money.

Chairman Mastick remarked that allocation of money to the states must, in turn, bring reallocation of these funds to local units. Mr. Yantis expressed his agreement with Mr. Mastick's viewpoint. The fact that various units participate in the same kind of expenditure doubtless increases the total expenditure. Total expenditures might be reduced if functions were narrowly confined within certain units.

Chairman Mastick suggested a study of the requirements of some of the states for their prime services of government; and a comparison of these necessities with the amount spent under a system of grants-in-
Mr. Long commented that the grant system led to the spirit of grab, and added that the method of representation followed in the United States Senate increased that tendency.

Mr. Parker predicted that the federal government was always likely to attach strings to the expenditure of money granted to the states, and expressed his conviction that local jurisdictions could spend the money well. He suggested a subcommittee to make definite recommendations.

Mr. Yantis concurred with Mr. Parker, and commented that the wealthy states which sell manufacturing commodities have greater responsibilities for taxation. Mr. Long disputed the argument. No conclusion was reached.

Mr. Parker commented on the English method of allocation of funds to local communities on the basis of population, area, relative wealth, and assessed valuation. Mr. Haas continued Mr. Yantis' argument with Mr. Long, stressing the point that the industrial sections of the United States gained from the size of the trade area of the United States.

Mr. Woodward reported that Pennsylvania was reacting against control by the federal government, and that the reaction was expressing itself in such measures as an effort of the state to tax federal securities, such as those issued by the HOLC.

Mr. Haas noted his desire for a study of the allocation of governmental functions. Chairman Mastick commented that such a study was now being made in New York.

Mr. Toll concluded the discussion of the long-term program by saying that the efficiency of each unit of government in collecting particular taxes should be studied. He mentioned the possibility of federally-collected, state-shared taxes, and noted his interest in the proposal that some of the funds redistributed to the states should be redistributed unconditionally. Mr. Woodward mentioned the Hayden-Cartwright Highway Act as an example of the type of strings which the federal government would attempt to attach in such cases.

Mr. Long expressed his concern over the tendency of the federal government to deal directly with political subdivisions of the state.

Mr. McCarron assumed the chair as the discussion of the short-term program was undertaken.

Mr. Toll opened the discussion by stressing the importance of the short-term program in making some demonstration to people of what could be accomplished, and to the Council of what the best mode of procedure might be. He suggested the tobacco tax or the gasoline tax as examples of what might be done. Mr. Martin commented that there are other techniques than the redistribution of functions and the readjustment of tax measures for getting state and federal governments into alignment with each other. Grants-in-aid and state-collected, locally-shared taxes are two other possibilities. He also suggested the importance of federal taxation of state instrumentalities; and state taxation of federal instrumentalities as a problem to study.

Mr. Long suggested, as part of a short-range investigation, a study of what interest the federal government should have in inheritance taxes. On legal grounds he could not see what compensation the federal government has to offer a state for a levy of inheritance taxes. Mr. Haas asked him if the state of Washington should have the right to levy inheritance taxes on Massachusetts manufacturers who moved to Washington in their old age. Mr. Long thought that Washington should have the right since it furnished the legal protection to the estate. He would not grant any argument in equity for inheritance taxes, since they are capital levies.

Mr. Morrissett declared his belief that the project would prove to be an expanding program rather than a short-term or a long-term program. Mr. Yantis expressed Mr. Toll's view by saying that he possibly had in mind, on the one hand, specific changes or reformation on which reasonable agreement might be reached quickly; and on the other hand, the building of a sound governmental tax policy, including the allocation of functions as well as revenue collections.

Mr. Parker expressed his uncertainty about the short-term program since it seemed to him that all taxes were closely inter-related. He wondered if a skeleton general plan was not necessary before a short-term program could be worked out.

Mr. Graves asked Mr. Martin why the inheritance tax would require a great deal of research. Mr. Martin pointed out the
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legal and administrative complications, the uncertainty as to federal action, and the difficulty in connection with community property laws. Mr. Woodward stated his confidence in the knowledge of tax problems possessed by state officials:

Mr. Mastick declared his feeling that from the standpoint of publicity some short-term program should be adopted. Mr. Long asked if the abandonment of some projects would not save a good deal of money. Mr. Mastick pointed out that he had suggested a study as to the necessity of various types of highways which would have a bearing on the study of the allocation of moneys to highways.

Chairman McCarran asked if a statement should not be made that the Council feels that certain types of property—especially real estate—are overtaxed. Mr. Boyington suggested the timber tax as a concrete example. Mr. Yantis noted that the timber people were not as much concerned over tax relief as they professed at first. He remarked that the major relief will have to come from within the states, by providing a better redistribution of the tax burden. He supposed this meeting was concerned largely with the overlapping and conflicts between federal and state governments.

Mr. Toll suggested that discussion at subsequent meetings should be turned to a question of the functionings of the Council, and the development of a staff.

The meeting adjourned at five fifteen P.M.
The depression has brought this problem into prominence by impairing the usual sources of revenue, thus causing our various governmental units to compete with each other for new sources and for greater yield from the old sources. This competition has produced numerous unfortunate results. For example, certain states have discovered that their taxes drove business into neighboring states; others have revised their tax laws primarily to attract business. Tax evasion, in all of its forms, has been increased by the fact that our machinery for the levying of taxes is out of equilibrium. We find some states imposing taxes previously levied solely by the federal government, and therefore having to set up duplicate administrative machinery. The federal government has also tapped sources of revenue previously regarded as reserved to the states. The conflicts between local and state governments in the field of taxation are too numerous even to be catalogued during the few minutes I shall address you. Every phase of this problem bristles with thorny details.

**Back to Fundamentals**

The principal contribution that I should like to make to your deliberations on this subject is a definition of the basic problem. With the definition in mind we are ready to divide the problem into its many parts, and take them up in detail. The basic problem, as I see it, is to be just to the taxpayer, independent levying of taxes by all of the various taxing authorities, without due consideration for the tax structure as a whole, has often resulted in unfair and uneconomic distribution of the burden. This is unjust, and therefore affects the very foundations of government. It touches the welfare of the citizen in his daily task of earning a living. I think the problem should be approached with this point of view. Duplicating causes waste, but that is a detail. The greater problem is to re-
store equilibrium in the tax structure as a whole, in order, primarily, to be fair and just. The waste is not as important as the injustice. It is entirely possible that we could attack the problem of waste and solve it without removing injustice. If we considered the matter solely from the point of view of the efficient tax gatherer it would become a technical problem. You could summarize it as a question of how to get the most money with the least expense. Stated in those terms the problem of this democratic government would be no different from that of any ancient tyrant. He had to raise money to support his government and he tried to get as much as he could with the least possible expense. A considerable part of the oppression which characterized tyranny was a direct result of taxation for revenue only, without regard to justice.

Taxes Are Taxes

We must remember that to the individual citizen taxes are taxes and that it makes no difference to him which agency is most at fault for any injustice he suffers. The tax structure should be sound, and the responsibility for making it so rests upon every part of our government. When each taxing authority is guided only by its own immediate needs and levies, regardless of the existence of identical or similar taxes imposed by other government units, the structure cannot be sound.

The problem of how to be fair in levying taxes is not easy, and perfection is out of the question; but the very complexity of the question makes it necessary for us to be striving constantly toward perfection because of the never-ending drift in the opposite direction.

We must be careful to guard against injustices as between geographic sections of the country, as between commodities and industries no less than as between individuals. An unjust distribution of the tax burden immediately creates artificial obstacles, and their disturbing influence is injected into the economic life of the nation.

I think it would be a great mistake, therefore, to think of our problem as limited to the removal of such administrative conflicts as now exist between the federal, state, and local governments with respect to taxes. Certain types of new taxes which have been adopted as emergency measures might well be left to their administrative difficulties, in the hope that they will be discontinued. It would be a mistake, in my opinion, to accept as our main problem the task of making it easier to collect and administer all taxes.

Practical Approach

What, then, should be our immediate approach to the problem? We may as well forego at the outset the approach that would disregard the historical development of our political institutions, and attempt to recast our whole government from top to bottom in such fashion that all governmental functions would be redistributed between federal, state, and local units according to some ideal pattern. The practical objection to setting up such an ideal system of taxation, based upon a thorough redistribution of all governmental functions, is that we would be forced to spend the rest of our lives contemplating the impossibility of putting it into effect. To be practical, in this connection, we must do our utmost to correct grave abuses without attempting to recast our whole machinery.

On the other hand, I don't believe that it would be wise to go to the other extreme; that is, to make a list of all of the specific types and cases of conflicts and overlapping, and attempt to take them up one by one. That type of piecemeal tinkering is very slow and rarely effective. Moreover, it is subject to the danger that each piecemeal solution, adopted without due reference to fundamental principles, might produce new inconsistencies. And a series of such piecemeal solutions could easily result in a badly distorted and unjust total tax structure.

Taxpayers First

The best approach would be the fundamental one of considering the entire problem from the standpoint of the individual taxpayer. The first step is to make a careful survey and analysis of the total tax structure of the country to determine just how the burden of our governmental expenses is now distributed. Next, I would note what practicable changes in the combined tax structure of the country would
produce a sound and more equitable distribution of the total burden. In the third place, I would concentrate upon a few important and workable means of eliminating conflicts and overlapping in a manner consistent with our analysis of what constitutes a fundamentally desirable tax structure. Finally, having arrived at a few important possibilities which we know to be fundamentally sound, we can then attempt to put them into effect. Each progressive step that we succeed in achieving along this line would not be a compromise that might create new conflicts, but would complete part of our task. Each fundamental step completed would provide a stepping-stone to make the next part of our program easier to achieve.

Progress in New York

Wherever the problem has been attacked in this manner, real progress has resulted. Several of the states are excellent examples, but I am most familiar with what was done in New York State when Franklin D. Roosevelt was Governor. At his direction, the problem of equalizing the tax burden was studied by experts, and their reports are among the most valuable we have on this subject. In the rural areas of New York State, tax reforms of great social value were put into effect and remain as beacons to direct our course.

Mr. Roosevelt's interest in this problem has been intensified since he became President of the United States. At his direction, the Treasury is undertaking a new study of overlapping taxes. This will supplement and carry further the excellent work on the problem of double taxation done by the staff of the Joint Committee on Taxation of the Congress for the Ways and Means Committee in 1932.

In proceeding along the course I have outlined, guided at every step by the basic principle of fairness, we should be careful not to assume that the revenue needs of our various governmental units are now fixed for all time. That assumption would lead us into new difficulties.

Our attack upon the problem of conflicting and overlapping taxation must be so basic that the solutions we arrive at are sufficiently flexible to provide for changing needs.

In the case of some taxes, it is entirely possible that we shall find it desirable to make a rigid separation of sources between federal, state, and local governments. In other cases, we might find that certain taxes now levied by numerous governmental units could be best administered, by the federal government, and the proceeds shared with the states. It is also possible that the states might handle certain of the taxes more easily than the federal government. It would be highly desirable to center considerable attention upon the principles that should govern the allocation of such revenue.

In conclusion, I strongly urge that the technical details of tax-gathering, and even the essential matter of supporting the government, be considered secondary in importance in your deliberations, and that first consideration be given to the vital question of justice to the taxpayer. That course simplifies the task and leads directly to the goal.

Mr. Mastick then took the chair, and commended the principle of justice to the taxpayer enunciated by Mr. Morgenthau.

Mr. Morgenthau noted that the technical staff in the Treasury, under Mr. Haas, and in Congress, under Mr. Parker, should be able to study some of these problems of taxation. Mr. Mastick added the fact that there is a staff available under the Interstate Commission on Conflicting Taxation. Mr. Vinsog commented that the thing which most impressed him in the statement which the Secretary of the Treasury made was the thought that the goal could not be reached in one jump. Mr. Haas again suggested a number of analytical subcommittees.

Subcommittees

Mr. Parker re-emphasized his statement that it would be useful to devise a general plan, so long as little time was wasted on details. He thought the plan should be laid out by a subcommittee, and then presented to the whole committee. A second legal committee might study the question of how to put the plan into effect. A committee on state and local taxation might study the systems in effect in certain states, recommending, perhaps, one of the better state systems. The fourth subcommittee.
might take up minor inequities of federal-state matters which are directly or indirectly concerned with taxation, and which might be righted promptly. The fifth subcommittee should take up the question of the allocation of governmental functions.

Mr. Woodward suggested that one of the better methods of protecting the taxpayer would be to institute the continental method of taxing real estate on the basis of income rather than on assessed value. Mr. Martin suggested that precaution should be taken to ascertain that no new legislation is recommended which would add to the difficulties.

Chairman Mastick inquired of Mr. Haas as to his idea of the analysis of the total tax structure of the country. Mr. Haas answered that some initial steps had been taken and that requests had been put in for work relief funds to continue the work. Mr. Belknap suggested that fees and small collections from individuals should be included, as well as regular taxes.

Mr. Graves asked Mr. Haas if it would be possible to develop a clearing house for the data collected from the work relief surveys in the Treasury Department. Mr. Haas answered that he could not be sure at the present time. Mr. Belknap commented that any general survey of taxation would have to be done by the state units, and that such a survey would be very difficult. Mr. Parker agreed that it would be difficult, and said that some estimations would have to be made.

Mr. Toll called attention to a resolution of the Second Interstate Assembly requesting a tabulation of statistics of state and local finances by each state. Mr. Martin commented that in about half of the states some statistics could be utilized, while in the remaining states the information would have to be accumulated from the start.

Mr. Parker inquired about the Bureau of Census study of state taxation. Mr. Martin remarked that considerable time has elapsed since its publication, which, in addition to certain defects in the method, render it of little value. He commented that the Central Statistical Board had been taking an interest in the matter, but that it was not certain how far they would go.

Mr. Parker added that there was great difficulty resulting from a lack of uniformity in classification, and Mr. Long called attention to the fact that the Census Bureau's classification was relatively uniform. Mr. Martin spoke of the work of the National Committee for the Improvement of Accounting Procedure in this connection.

Mr. Moffett asked if it was true that some statistical expenditures of cities might appear three times in the census figures, once for the federal government, once for the state, and once for the local government. Mr. Martin answered that the situation was true, citing Wisconsin as an example.

Mr. Oliphant said that he was interested in trying to solve our tax difficulties along the lines suggested by Mr. Parker. He felt that problems of municipal finance had been sadly neglected.

Mr. Graves suggested the desirability of having a committee designated to sketch a general picture of tax structures. Mr. Belknap asked if this was not the sort of approach that had been followed by the Interstate Commission on Conflicting Taxation. Mr. Parker answered that the latter organization had paid more attention to detailed subjects. Mr. Graves commented that there were three schools of thought; one which favored separation of sources of revenue, a second which favored segregation of revenue, and a federal tax supplemented by a state tax, and a third which favored federal collection of major taxes with grants-in-aid to the states. He suggested that the general committee might see what was possible along each of those lines. He felt it to be evident that it was not going to be possible to work through the Tax Revision Council as a whole, but that committees should be established.

Mr. Yantis desired a study of the form of tax organization within the various states, and expressed the need of telling those with whom the Council would have to deal.

Mr. Parker's list of proposed committees was then re-read: (1) a committee on the development of a plan or plans for the coordination of federal and state tax systems; (2) a committee on possible methods of putting into effect a plan for the coordination of federal and state tax systems; and (3) a committee on the development of a model plan for the coordination of state and local tax systems. Mr. Toll raised the point that the committee on development of plans for coordination of federal
and state tax systems; and for putting into effect such plans might well be combined.

Mr. Parker pointed out the necessity for propaganda in favor of any system of co-ordination, and was joined by Mr. Mccarren.

Mr. Toll then read the remaining proposed committees: (4) on the investigation of minor inequities or sore spots in our tax system and recommending remedies therefor; (5) on the allocation of functions between federal, state, and local governments; (6) on the collection and analysis of federal, state, and local tax statistics, which would be the committee that would confer with the Department of the Treasury on its studies.

Chairman Mastick commented that Mr. Haas had suggested a Committee on Committees, and a Committee on Objectives, and that Mr. Graves suggested a Committee on Tax Structures.

Mr. Toll suggested that the committees might hold initial meetings in the afternoon. On motion of Mr. Long, seconded by Mr. Warkentin, Chairman Mastick, Mr. Parker, and Mr. Toll were selected to serve as a Committee on Committees, to present their conclusions at the afternoon session.

Mr. Morrissett commented that the Committee on Survey and Analysis of the Total Tax Structure was perhaps the most important. Mr. Parker added that a good deal of valuable information is already available.

The meeting adjourned at twelve-thirty P.M.
THE meeting convened at three-ten P.M., Chairman Mastick presiding.

CHAIRMAN MASTICK: The Committee on Committees submits for your consideration the following report:

1. Federal-State Planning Committee,—on the development of a plan or plans for coordinating federal and state tax systems; on methods of putting such plans into effect; and on inequities subject to prompt correction.

2. State-Local Planning Committee,—on the development of a model plan for coordinating state and local tax systems, including a report on possible methods of cooperation between the several states.

3. Federal, State and Local Functions Committee,—on the allocation of governmental functions between federal, state and local governments.

4. General Survey Committee,—on the collection of facts and statistics in respect to governmental tax laws, functions, revenues and expenditures.

On motion of Mr. Long, seconded by Mr. Belknap, the report was accepted. The recommendations for membership on the committees were:


Committee on Allocation of Governmental Functions: C. A. Dykstra, Chairman, Herman Oliphant, Seabury C. Mastick, George F. Yarbrough, Daniel W. Hoan.


As advisory members on the last committee named there were appointed: Morris Copeland, Stuart Rice, Mayne Howard, and John Wilmott, because of their experience in connection with statistics.

On motion by Mr. Long, seconded by Mr. Belknap, the recommendations were accepted. On motion by Mr. Long, seconded by Mr. Boyington, it was agreed that any member of the Council may attend meetings of any of the committees. On suggestion of Mr. Long, the various committees began a discussion of their plans.

Mr. Morrissett commented that the Committee on Development of a Model Plan for coordinating state and local tax systems faced a tremendous task. Systems in each state must be studied, and the work of getting the plan adopted would be very difficult. Mr. Boyington added that the development of a model plan by this committee would also involve various federal questions. He outlined a suggested division of the fields of taxation within the three levels of government: income, sales, inheritance, estate, gift, tobacco, and liquor excise taxes should be reserved to the federal government; motor licenses, gasoline, liquor, retail, property taxes, and a sustained yield tax on timber should be allocated to the states; local units should receive a property tax tied in with the state, and cities should also be given revenues from local business licenses, and so forth.

Mr. Warkentin remarked that the reduction of real estate taxes, and popular education were important parts of the tasks of the state and local committees. Mr. Woodward suggested that a general sales tax be enacted by Congress, the proceeds to be devoted to the relief of real estate.

Chairman Mastick noted the slow progress of the work of the Tax Revision Commission in New York State, although the work is being successfully carried on. Mr. Haas, speaking as a member of the General Survey Committee, remarked that the Treasury is obliged to make a study of tax
data in view of the inadequacy of existing data on conflicting taxation. He suggested that he would like to submit the statistical schedule to the members of the Council.

Mr. Haas then asked Mr. Parker to clarify his remarks about the analysis of tax tables. Mr. Parker gave an illustration of an analysis of one table which developed the fact that aliens were excessively taxed when they were involved in trusts, and that those who merely received dividends were not taxed. Another illustration was the tobacco tax from which 350 out of 450 millions collected by the federal government was received from North Carolina.

Mr. Long remarked that a table showing the purchasing power of the various states would indicate where the tobacco tax really came from. Mr. Haas answered that that was an analytical job, and that the important thing would be to assemble the table first, and worry about the analysis later. He also remarked that the question of allocation involved a good deal of estimation.

Mr. McCarrery commented that he thought the analyses should be handled by the staff of the Tax Revision Council. Mr. Belknap noted that the development of taxpayers' associations in the states made it advisable to have state and local financial statistics in better shape. Mr. Toll again stressed the point that the units of government must be re-appraised before it would be possible to work out a more permanent tax structure. It would be necessary to observe various states to see which are getting the best results with their tax structures. In regard to the matter of staff, he felt that the most important initial step was a simple study of the possible functions and methods of operation of the Tax Revision Council. He prefers a relatively small staff, analyzing the material which other people are preparing.

Chairman McCarren commented that the organizations allied with the Public Administration Clearing House in Chicago have an elaborate library, and that the staff should be located there. Mr. Toll answered that the need for federal contact is such that Washington might seem more desirable. Mr. Long suggested that a compilation of already available material is being made by the Interstate Commission on Conflicting Taxation staff. Mr. Martin answered that the job was, to a large extent, already done. Mr. Graves commented that, since he and Mr. Parker and Mr. Long all had research staffs, he thought they could start things without waiting for a staff to be organized and supported by the Council of State Governments, perhaps doing a good deal of preliminary work, without any staff, in the course of the summer. Mr. Long indicated his agreement. Mr. Yantis also expressed his agreement, and asked if the problem was not one of analysis-comparison rather than the compilation of vast quantities of data. Mr. Parker commented that a great deal of work has to be done, however, and that a staff would, sooner or later, be absolutely necessary. Mr. Toll suggested the possibility of securing foundation funds.

The meeting adjourned at five-fifteen P.M.
Friday Evening Session
June 7, 1935.

The meeting convened at eight forty-five P.M., Mr. McCarron presiding.

Mr. McCarron suggested that the discussion be devoted to the approach and remedy to our tax problem rather than to the question of organization. Mr. Graves expressed his openness of viewpoint on the matters which come before his committee, and enumerated the different schools of thought. In answer to a question of Mr. Woodward's he said that he did not feel that any one rule of allocation could be applied to all kinds of taxes. For example, he felt that aid for public education should be apportioned in inverse ratio to the wealth of the district, and that many factors should be brought into agreement. He thought that all the devices would have to be used: segregation of sources, crediting device, sharing of taxes, grants-in-aid, and local supplements to central taxes.

Mr. Warkentin remarked that in Kansas an abnormally large proportion of the burden of taxation fell on real estate. Mr. Long then stated his plans for raising revenue: first, taxes on capital; second, privilege; and third, flat levies of various types. The Kansas situation is illustrative of that in the rest of the country. Some contracting of land-values is essential. The main source of revenue is a definite tax on all people irrespective of how they may be classified, and whether or not they own property. It may be an income, sales, or poll tax. The day of reliance on real estate for major tax revenues is definitely over, since we are spreading our people more and more by reason of the improved means of transportation and communication.

Mr. McCarron inquired if Mr. Long did not recognize the responsibility of the states for education of all people. Mr. Long answered that probably the statement was fair. He then took exception to the theory that social service should be widely given and guaranteed by government.

Mr. Boyington asked Mr. Long if he did not believe that we were fast depending upon the federal government for all of our taxes. Mr. Long answered that when that is the case, Oregon will no longer be a state. Mr. Woodward commented that when these problems go beyond state lines, the job is too big for Washington to manage, and that the Supreme Court seemed to share this view. Mr. Haas agreed with Mr. Long that the tax burden on real property would probably become smaller, but he did not agree that real estate values would not increase. He also disagreed with Mr. Long in his estimation of the importance of the state as a political unit. He thought that Massachusetts should be more federally-minded for her own sake. At the moment, Massachusetts, as an industrial manufacturing center, is deriving benefit from other parts of the country. Mr. Woodward answered that he objected to the siphonage of Pennsylvania assets to be sent to Alabama or some poorer state. Mr. Haas answered that many industrial regions could gain from other states; for example, Detroit should be grateful to the south for a big increase in automobile sales.

Mr. Belknap illustrated the point by noting that the Southern Economic Council says that the south is buying too many manufactured products from the north. He remarked that the whole subject is so complicated, argument is not satisfactory. He then illustrated the difficulties inherent in the adoption of social legislation by the federal government. Mr. Boyington asked if we could not use districts to avoid undue uniformity of legislation. Mr. Woodward agreed, and Mr. Belknap thought it desirable, if practicable.

Mr. Yantis commented that he thought city real estate values had over-expanded, and that other taxes must be used as a
substitute for the property tax. He believed that some form of sales tax should be included in the system of every state, although it might be desirable to have the federal government a collection agency for income or sales taxes.

Mr. Woodward remarked that income is a certainty, and property a matter of opinion. Hence, income taxes have a firm foundation of certainty. Mr. Long suggested that taxation of income, after the income has been received, is really taxation of capital. He maintained that property taxes must be the main source of tax revenue because every dollar does rest in some form of property.

Chairman McCarren asked Mr. Woodward his opinion about the assessment of an estate used by an owner who shows no income. Mr. Woodward answered that in such a case he would not tax the owner. Mr. Long commented on the copper mines in Michigan which were closed when copper was selling at a low level, and asked if they should be exempted from taxation.

Mr. Woodward countered with the example of foreclosures on real estate in recent years, foreclosures which would not have occurred if the tax had been on income. Mr. Yantis suggested a compromise between the two extremes.

Mr. Boyington asked about the advisability of homestead exemptions, to which Mr. Yantis answered that the thing to do is to broaden the base of taxation and keep the rate down. Mr. Belknap suggested that Kentucky had left only the county tax on homesteads, which seemed to be a logical thing. Mr. Yantis remarked that while arbitrary limitations on taxes were considered unsound, we are mentally lazy enough to solve problems only under compulsion.

Mr. Long inquired of Mr. Yantis why assessments were generally lower than the legal requirement in various western states. Mr. Yantis answered that it was in part political, and in part, a result of pressure from banks and savings and loan associations. On questioning from Chairman McCarren and Mr. Long, Mr. Yantis said he did not feel that the federal government should have the right to inquire into the methods of assessment. Mr. Boyington cited several instances of political assessment from his own experience. Chairman McCarren noted that one Michigan city had called upon the federal government for relief, whereas proper assessment would have solved the difficulty.

Mr. Martin called attention to the importance of the additional levy by local units on central levies. In the past, the reverse of this system has been followed throughout most of the country but this system was thought by Mr. Graves to be of great importance. He also called attention to the fact that Mr. Yantis' middle course between arbitrary valuation of capital and dependence upon uncertain incomes for taxation was partially provided for under the English system of assessment on income-producing capacity. He commented that the tendency towards centralization has arisen not so much from within the government as from outside economic developments.

Mr. Woodward commented on Philadelphia's system of renting houses. The tenant agrees to pay six per cent on the appraised value and the corporation, in turn, cares for the roof and the outside of the house only. No books are kept, no insurance is paid, and no account taken of depreciation.

Mr. Boyington asked if he was correct in the assumption that when the opportunity to invest in tax-free municipal bonds arose, the people deserted real estate as an investment. Mr. Long suggested that the chief trouble was the automobile which broke up the congested areas, and opened up more land for use. Chairman McCarren commented on his interest in establishing machinery for location before assessment of securities. Mr. Long commented that a number of large estates in Massachusetts held very few tax exempt securities. The frightened attitude of the holders of capital has resulted in an increasing flow of capital into tax-exempt securities in very recent years.

On motion of Mr. Yantis, seconded by Mr. Warkentin, it was decided that the question of organizing a staff for the council be left to the discretion of the executive committee.

The meeting adjourned at eleven P.M.
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