VALUE ROADS OR LOSE CASES

Interstate Commission Appeals to All Citizens to Urge Congressmen to Vote Money Absolutely Necessary in a Crisis.

(Washington Bureau of The Journal.)

Washington, May 12. An appeal goes forth from the interstate commerce commission for assistance in bringing pressure on congress to appropriate sufficient money to enable the commission to make valuations of all railroad properties at the earliest possible date. This move is prompted by the conviction that the entire program of the regulation of rates and practices is in danger of complete failure under existing conditions, and that unless the commission is permitted to establish valuations of properties, all cases now pending and to come before that body will fail and the roads will win.

The reason for this conclusion is the excessively high valuation which the roads are now claiming in the suits now being tried, and the well known intention of all the roads to allege enormously increased values of their properties, as arrived at by their own experts.

The immediate causes for alarm on the part of the commission over the threatened advantage to the roads are the tremendous valuations claimed by the Northern Pacific and the Great Northern in the lumber cases now being tried at St. Paul, as well as the same high valuations by roads in southwestern cattle cases.

The commission proposes to ask the president and congress to grant the needed appropriation at a special session. The commission believes it already has authority to make such valuations, but it lacks sufficient funds to do it properly. Not less than $1,000,000 is to be asked for, and perhaps the total will be several millions before the valuation work is completed.

At the best thing the commission can do under existing conditions, it has employed State Engineer Thompson of the Texas railroad commission to do the work in connection with the southwestern cases, he having made a valuation for the properties affected by these cases.

If the commission is given the money asked for, one of the first things will be to accept in part the results of the valuations of the northern roads made by the engineer of the Washington state railway commission, which has been submitted here in previous rate cases tried before the commission.

Appeal is made to the business men of the Pacific coast and all other sections, that they urge upon all members from their states that they support the commission's request at this session. It is asked that persistent demands be made upon members from this time forward until the desired result has been achieved.

MICHIGAN SENATOR FIFTY YEARS OLD

Washington, May 12.—Senator Smith—William Alden Smith of Michigan—was 50 years old today. He will have occasion to remember the anniversary, for he was kept busy during a good part of the day receiving congratulations and good wishes from his colleagues in the senate and numerous other friends in official life.

Senator Smith's 50 years cover a notable and highly creditable career. He was born of poor parents and his first money was earned as a popcorn vender. While selling corn he made a friend of Speaker J. T. Rich, of the Michigan house of representatives, and Rich appointed young Smith a page in 1879. He saved his money, studied law, and while still a young man became general counsel for the Chicago & Western Michigan railroad. Later he built several small railroads in the Michigan timber belt and realized a fortune by selling them to the Pere Marquette. He was elected to congress from the Fifth Michigan district in 1894 and two years ago he succeeded Russell A. Alger in the senate.

The Michigan senator is one of three representatives that the great family of Smith now has in the upper branch of congress. The other two are John Walter Smith of Maryland and Ellison Du Rant Smith, the new senator from South Carolina.

CHAMBERLAIN VOTES THE PEOPLE'S WAY

(Washington Bureau of The Journal.)

Washington, May 12. On the theory that the tariff bill should lessen the burden of living for the poorer classes, Senator Chamberlain yesterday supported an amendment to materially lower duties on the cheaper grades of chinaware. He also voted to leave the 60 per cent duty on expensive imported wares.

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OREGONIANS FOR JAPAN

The rules of the Japanese service do not permit pianos to be used on board their warships, but word has just been received from the Ellers house, in San Francisco that both Captain I. S. Ishii, commander of the flagship Aso, now in San Francisco harbor and also Captain Engineer Fujii of the same vessel, have purchased pianos for their own use in their staterooms.

It is particularly interesting for Oregonians to know that Portland's own product, the Ellers piano, which is built as far as possible from Oregon materials, was selected after careful examinations and tests made under the direction of Mr. Nagashima, commissioner for this purpose. This again goes to show that Oregon spruce after all, is the very choicest obtainable for piano sound board making, and it is gratifying to the Ellers house to know that the Ellers Orchestral pianos are gaining renown everywhere, and through the Japanese navy, now visiting the coast, will be the first instruments of this make to secure recognition in the orient.

Foster & Kleiser—Signs.

OSWALD WEST ON TAX AMENDMENTS

Railroad Commissioner Oswald West was requested to address the grange meeting at McMinnville. Mr. West could not be present to deliver his talk on "Tax Amendments" because of a hearing before the commissioners. The address was read to the grange members. In full it follows:

"'Taxes,' says Judge Cooley, 'are the enforced proportional contributions from persons and property, levied by the state by virtue of its sovereignty for the support of government and for all public needs. The state demands and receives them from the subjects of taxation within its jurisdiction that it may be enabled to carry into effect its mandates and perform its manifold functions and the citizen pays from his property the portion demanded, in order that by means thereof, he may be secured in the enjoyment of the benefits of organized society. The justification of the demand is therefore found in the reciprocal duties of protection and support between the state and those who are subject to its authority and the exclusive sovereignty and jurisdiction of the state over all persons and property within its limits for governmental purposes. The person upon whom the demand is made, or whose property is taken, owes to the state a debt to do what shall be his just proportion toward the support of government, and the state is supposed to make adequate and full compensation, in the protection which it gives to his life, liberty and property, and in the increase to the value of his possessions, by the use to which the money contributed is applied.'

Power to Tax.

"It is said: 'The power to tax is essentially legislative in its nature and is vested in the legislature of every state by a general grant of legislative power, whether specifically enumerated in the constitution among the powers to be exercised by the legislature or not. According to this principle it is exclusively within the province of the legislature to determine all questions of time, occasion, and extent in regard to the imposition of taxes, and also the subjects on which the power of taxation may be exercised. In the absence of constitutional limitations and restrictions the power of the legislature is plenary and absolute, and the only security against its abuse is to be found in the integrity and sense of justice of the members of the legislature and their responsibility to the people.'

Framers of Constitution.

"The framers of our state constitution realizing the extent to which the taxing power might be carried hedged the legislative power about with certain constitutional limitations. They wanted to see uniformity and equality in our system of taxation. By uniformity they meant that all property similarly situated should be taxed at the same rate, and in the same manner, by equality they meant that the burden of taxation should be so distributed that each taxpayer might contribute in proportion to his property and feel neither more or less inconvenience from his share of payment than every other person experienced.

"Our constitution provides that: 'All taxation shall be equal and uniform and that the legislative assembly shall provide by law for uniform and equal rate of assessment and taxation; and shall prescribe such regulations as shall secure a just valuation for taxation of all property, both real and personal, excepting such only for municipal, educational, literary, scientific, religious or charitable purposes, as may be specially exempted by law.'

Times Have Changed.

"There never has been and it is doubtful if there ever will be perfect equality in taxation. It may have been considered possible when our constitution was framed as most of our wealth was at that time made up of real estate which was easily listed and valued; there were but few corporations, no railroads, money was scarce and franchises and intangible values were of little or no consequence. Time and the growth of our state, however, has brought changes undreamed of by the old pioneers who framed our constitution. They hoped and legislated for equality in taxation, but should they come back here today and find practically every foot of real estate on the tax roll and assessed at from 75 per cent to 100 per cent of its full value, and be advised that the individual deposits in the bank of this state amount to $74,000,000 and that the amount of money returned to the assessors was only $16,400,00; that railroad property worth $100,000,000 was assessed in 1905 at $15,000,000 and even now at only $40,000,000 and that express companies, until recently, paid taxes on nothing but the few thousand dollars worth of property they used in carrying on their business in this state, they would say that this was not only unequal taxation but unjust taxation, and the first thing they would do, after sizing up the situation, would be to amend the constitution, and the next would be to give us a system of taxation that would make every one contribute to the support of the government as nearly as possible in proportion to the revenue which he enjoys under its protection.

Study of System.

"A careful study of our system of taxation will convince any one that the first step in reform is the removal of certain constitutional limitations and the next is the separation of the sources of state and local revenue. With this in view, certain members of the grange prepared and submitted to the last legislature two constitutional amendments. They were approved by both houses and ordered submitted to the people at the next general election. The proposed amendments are as follows:

"Article 1 section 32. No tax or duty shall be imposed without the consent of the people or their representatives in the legislative assembly. Taxes shall be levied and collected for public purposes only, and the power of taxation shall never be surrendered, suspended or contracted away.

"Article 9 section 1. The legislative assembly shall, and the people through the initiative may provide by law a uniform rule of taxation, except on property specifically taxed. Taxes shall be levied on such property as shall be prescribed by law. The legislature or the people through the initiative, may provide for the levy and collection of taxes for state purposes upon different classes of property and may provide for the ascertainment, determination and application of an average rate of levy and taxation upon property taxed for state purposes. The legislative power may provide for the apportioning of any tax among the several counties as county obligations to the state by reasonable and equitable rules.

Clause Stricken Out.

"The words 'and all taxation shall be equal and uniform' in section 32 of article 1 has been stricken out, as this is covered in the other amendment, and there has been added the provision that taxes shall be levied and collected for public purposes only, and the power of taxation shall never be surrendered, suspended or contracted away. The language is limited to what should be contained in a bill of rights and is for the protection of the people in their sovereign capacity.

"The proposed amendment to section 1 of article 9 provides that: 'The legislative assembly shall and the people through the initiative may provide by law a uniform rule of taxation, except on property specifically taxed.' The only constitutional limitations as to equality and uniformity are that taxation must be by a 'uniform rule.' This is a sufficient protection against any unjust or arbitrary action by the legislative power. There is nothing to forbid the classification of property for the purposes of taxation and the valuation of different classes by different methods. The rule of uniformity will require that the same means and methods shall be applied impartially to all the constituents of each class, so that the burdens of taxation will be equally distributed.

"The provision that taxes shall be levied on such property as shall be prescribed by law will permit the exemption of the property of religious, charitable, educational and other institutions now exempt, and also such property as the legislature or the people may see fit to relieve of the burden of taxation.

Other Provisions.

"The provision that the legislature or the people may provide for the levy and collection of taxes for state purposes upon different classes of property, and may provide for the ascertainment, determination and application of an average rate of levy and taxation upon property taxed for state purposes will permit the matter of assessment of the property of railroads and other public service corporations to be taken out of the hands of county assessors and its being put into the hands of a state body, such as our tax commission, with the power and means of ascertaining the value of such property, and applying to it an average rate, or such a rate as would apply if the property was equally distributed over each and every county in the state. The taxes so collected may be used for state purposes, and if the amount so collected is sufficient for said purposes the counties will not be called upon to contribute to the support of the state government, and taxes levied and collected in the several counties will be for local purposes only; this will give each county home rule, and local assessors will be at liberty to assess property within their own territorial limits at 10 per cent, 50 per cent or 100 per cent of actual values if they see fit, and it will in no manner affect or concern any other county. An equalization will be made by the state board, not merely for the purpose of arriving at a just and average rate to apply to the classes of property to be taxed by it for state purposes. If, however, the revenue collected by the tax commission is insufficient to cover the expenses of the state, the counties until such time as it does may be called upon to make up the deficiency; but if the revenue collected is more than enough to cover the state expenses the surplus may be distributed among the several counties, and to that extent will lighten the local burdens.

Permit Apportioning.

"The provision that 'the legislative power may provide for the apportioning of any state tax among the several counties as county obligations to the state by reasonable and equitable rules,' will permit the apportioning among the counties by equitable rules of any tax which may be necessary to cover a deficiency when the taxes collected by the state board from public service and other corporations are insufficient to meet the expenses of the state government.

"Professor E. G. Young, in a bulletin on 'Tax Reform,' published by the University of Oregon, fully explains the proposed system. He says:

"'Instead of a general property tax assessed and collected by local authorities, the proceeds being distributed among the different orders of government up to and including the state, the several features of the property tax should be segregated and assigned to taxing jurisdictions for administration, and the receipts from which should likewise be reserved as revenues for these respective governments. Municipality, county and state governments should be assigned just the tax each can best administer; and these taxes at the same time with equal rates on different interests yielding revenues just sufficing for the respective public expenditures of the different orders of government.'

Highly Desirable.

"Such segregation of taxes for administration and as sources of revenue for state and local governments is so highly desirable because of the difficulties always encountered in the apportionment of the burden of the support of the state or county governments among the local administrative districts. The incentive to undervaluation is always brought in if the apportionment is on the basis of valuations. This mischief-making incentive is avoided in using the expenditure basis of apportionment, but the several distinct taxes are then not assigned to the particular unit of administrative unit that can best utilize it.

"Just how the lack of adjustment of the general property tax of the primitive form has become more pronounced year by year is made clear by observing the course of industrial development. As industrial development proceeds the enlargement of the business units grows apace. The operations of a single concern are widely extended. The great railway systems and other forms of modern transportation agencies are among the most conspicuous examples. Government activity and government expenses in behalf of these great corporations, naturally fall to the state at large, likewise the administration of the taxes upon these corporations is most advantageously in the hands of the state, and the revenues from those taxes should support the state. The state is the sphere of operation of these transportation corporations. The state as a whole largely bears the cost of protecting them. Only a state tax commission can intelligently assess them. So the tax receipts from such widely extended forms of business should be segregated for the support of the state government. Thus the complications of artificial and arbitrary equalization of the support of the state government are obviated.

Revenues of State.

"The segregation of the sources of the revenues of state and local governments is thus clearly advisable not only for the negative purposes of obviating the perplexing problem of apportionment of state taxes, but also positively advisable for placing taxes where they can be handled, where the interests paying the taxes have caused the public expenditures and where these special revenues may be made to balance expenditures. The general problem of equitable distribution of the burden of the support of public activities is not stirred in the segregation of the taxes. Social justice in taxation is not renounced. On the contrary, the arranging of equitable contributions is conspicuously undertaken and is for the first time under conditions making approximate justice possible. With the higher organization of industry a large portion comes to have a general situs. Should public service corporations properly assigned to the state for taxation be taxed to a revenue beyond what the state needs for its activities there are the common schools and the highways, which are under local administration, for which the common welfare requires should have good care in the poorest sections, and for which the distribution of the surplus from the state treasury would be most salutary.

Not Enough Revenue.

"Oregon, through the reservation for state purposes of the corporation licenses, taxes and fees, insurance premium taxes and licenses, gross earnings on the minor public service corporations and inheritance taxes, has segregation well under way. These appropriate state taxes yield more than one-fourth of the revenue needed for state activities. The additional reservation of railway taxes would no doubt suffice to free the taxes on real estate and tangible personality for meeting the local needs.

"The state of Wisconsin has adopted the proposed system of taxation and with great success. In the 1907 report of the tax commission of that state it is said:

"'The rate of taxation to be applied to railroads and other corporations assessed and taxed directly by the state, is determined by the valuation placed on the general property of the state by the tax commission. This rate is ascertained by dividing the aggregate of all taxes for all purposes, state, county and local (except poll taxes and special assessments for local improvements in cities and villages), by the aggregate valuation of all the general property of the state as fixed by the commission.

"'The plan pursued (for arriving at the true cash value of real estate) has been to ascertain the consideration paid for lands sold in each assessment district during each of five years and the last assessment of the same lands returned for each of the same years, and to find the true value of the district by applying the ratio of assessed to true value of the lands sold, to the aggregate assessed value of the real estate of the district; then adding together the yearly aggregates and dividing the sum by five to get the average for a single year.'

What Law Provides.

"The laws of that state provide that: Any railroad company interested shall have the right to appear and be heard as to the value and assessment of the property of such company and the tax to be levied thereon, and as to the value of the general property of the state, and the board may on such application or of its own motion correct the valuation or assessment of such company in such manner as will in its judgment make the valuation thereof just and relatively equal with the valuation of the general property of the state, and may correct the valuation of the general property of the state.'

"The Missouri tax commission, in advocacy of this system of tax reform, says:

"'The first step is the separation of the sources of state and local revenue. * * * The general features of this separation * * * may be briefly summarized. The state would discontinue the levy of a general property tax upon the real and personal property of the state, leaving the assessment and collection of this tax to the counties and municipalities for local purposes, including schools. * * * The state would thereafter derive its revenue through its inherent general power of taxation upon general subjects of taxation as by licenses, corporation taxes, inspection fees, and such other forms of taxation as the general assembly may, from time to time, determine.

Different Rates.

"The different rates of assessment in the different counties, enforced by the different demands for local revenue, would no longer produce inequality in taxation with reference to the state tax. The remedy proposed is, in our opinion, the only effective remedy. On the other hand, the proposed system would give the people of the counties and cities of the state the largest measure of home rule and local option in the matter of taxation. Each community could fix its own rate of valuation as its local needs may require, without subjecting its citizens to the injustice of being compelled to pay an undue share of state taxation. Furthermore, each locality could adopt subject to the constitutional requirement of uniformity, such modifications of the general property tax upon real and personal property as would be found most effective and best suited to the needs of that locality. We would thus have local option and home rule in this fundamental function of government, and we believe that this development of home rule in taxation would be in accord with the highest dictates of public policy.

Option in Taxation.

"There is now a certain kind of local option in taxation which consists in the variation of the rates of assessment upon property according to the local needs of the community, some counties raising taxes on 70 or 80 per cent of the real value of property, others only 20 or 30 per cent. We see no remedy for this existing inequality and resulting injustice, except in the separation of the sources of state and local revenue. We regard this separation of state and local revenues as a basis of any fundamental reform of the taxing system of Missouri.

"An important reason in favor of this change in the separation of the sources of state and local revenues is that the effectiveness of taxation could be thereby secured. If experience should show that any class of property could be best assessed and collected by the state authorities, the general assembly should have the power to make such arrangements and to apply the proceeds of such taxes to state purposes, or, to apportion it to the counties and cities. New York has recently furnished an interesting illustration of the substitution of an effective for an ineffective tax by providing for the payment of the tax upon the recording of a mortgage in lieu of all other taxation of mortgages. This tax cannot be evaded, and has resulted in an annual income to the state of between $4,000,000 and $5,000,000. Effectiveness will also be promoted by the change proposed because of the increased diligence of local assessors and the better public sentiment which would result where the proceeds of the tax are to be devoted entirely to local purposes.

Separation of Resources.

"This separation of the sources of state and local revenue would in no wise impair the existing constitutional guarantees, state and federal, whereby all persons, whether individual or corporate, are protected against any possible abuse of the taxing power by class legislation. Taxes would still be uniform upon the same class of subjects within the territorial limits of the authority levying the tax, and all persons, individual and corporate, would be secured by constitutional guarantees in the equal protection of the laws, and the existing constitutional limitations upon tax rates would still be effective.

"The advantages which, in our opinion, would result from the proposed change, are as follows:

The Advantages.

"First—Complete separation would abolish at once the expense, friction and vain attempt to equalize among different counties.

"Second—When separation is effected it will be possible to place each tax in that branch of the government, local or state, which is best adapted to administer it.

"Third—The local taxing districts, the counties and cities of the state, will then have practical home rule in matters relating to taxation.

"Fourth—Equality in taxation, both state and local, can then be secured by making all taxation effective.

"The adoption of the proposed amendments will revolutionize our revenue system. It will result eventually in placing the assessment of public service corporations in the hands of the tax commissioners and the devoting of the revenue collected from such sources to defraying the expenses of the state government.

"The new tax law provides that the tax commission for the purpose of arriving at the actual value of the property of public service corporations, may value the entire property of a company, both within and without the state, as a unit, and after making deductions for such property of the company as is not directly connected with the business thereof, may tax a just proportion of the whole.

What Supreme Court Holds.

"The supreme court of the United States has held that states through which railroads, telegraph, sleeping car, and express companies operate are not compelled to content themselves with a valuation of separate pieces of property disconnected from the plant as an entirety, but that, inasmuch as the state extends protection to, and its citizens contribute to the dividends of, a proportionate part of the whole, it might be valued as a unit and a proportion of the whole taxed by a particular state without violating any federal restriction and in arriving at the value of the whole the use to which it is put, and all elements making up its aggregate value, should be taken into consideration.

"In other words if an express company is doing business in Oregon, Washington, and California, and operates over say 5000 miles of line, one third of which is in Oregon, the company may be made to pay taxes in Oregon on one third of the value of the plant. The value of the plant is not the aggregate value of the separate pieces of property used in carrying on its business nor the total par value of its stock, but is determined by its earning power; the capitalization of net earnings from operation will give the true value of the plant or the value of its outstanding stock. If this system of assessing express companies and other such public corporations is put in effect they will pay many times the amount of taxes they are now paying.

"As required by the act of 1907, the railroad commission is at work ascertaining the original cost and the cost of reproduction of the railroads in this state; the work is well under way and will likely be completed within a year. With this information prepared for it; and the existing constitutional restrictions removed, the new tax commission will be in position to put into effect reforms in taxation long needed in this state."

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