IN THE FIELD of agricultural finance, mortgages and taxes are the two most prominent elements. Both are necessary, and they are here to stay. But need they be so arranged that they lead to undue hardship and therefore to soil misuse? Or is it possible to revise both mortgage and taxation methods so that they encourage better use of the land? These questions are raised by this article, which attempts to show some of the shortcomings of current methods.

The Causes: Imperfections in Agricultural Finance

By David L. Wickens, R. Clifford Hall, and Donald Jackson

THE RELATION OF THE FARM MORTGAGE TO SOIL DEPLETION AND TENANCY

A MORTGAGE may be as injurious to a farm as erosion or a poor cropping system. Although credit is commonly employed to enable farmers to buy their farms, a loan may nevertheless become the cause of destroying soil fertility and ultimately of losing ownership of a farm. It has often been pointed out that certain tenant arrangements result in overcropping and depletion of the soil, but it is not always recognized that this same condition may be caused indirectly by the terms of a mortgage on a farm operated by its owner. Many farmers in the United States operating their own farms have had this experience. The necessity of meeting payments on a mortgage that is unduly burdensome has caused many farmers to specialize in crops that reduce soil fertility, to neglect the restoration of plant food, and to fail to plant crops that prevent erosion. At the same time the farmhouse and the other farm buildings as well as the soil usually deteriorate.

The terms and conditions of American farm-mortgage financing that have given rise to some of these difficulties and are now traditional, came into being for the most part during a period when the soil of the Nation's farms was new and when continued fertility was apparently assured for a long time. The preservation of soil fertility was not then recognized as a problem. Consequently, it did not

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1 The section headed The Relation of the Farm Mortgage to Soil Depletion and Tenancy is by David L. Wickens, Economic Adviser, Farm Security Administration; and the section headed Land Taxation is by R. Clifford Hall, Director, Forest Taxation Inquiry, Forest Service, and Donald Jackson, Senior Agricultural Economist, Division of Agricultural Finance, Bureau of Agricultural Economics.
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become the general practice to make any special provision for maintaining soil fertility in any arrangement involving the purchase or sale of land or in the extension of credit secured by land, or to provide for any supervision or inspection of farm practices. Farm-mortgage contracts were mainly concerned with formal provisions regarding the credit extended, the description of the property and enumeration of more or less standard terms for the loan, including the interest rate, and procedure to be followed in event of default. During all the years of expanding agricultural activity no special provisions were made in the loan instrument to encourage soil conservation, to relieve the borrower from the necessity of robbing the soil to make loan payments in price-depression years, or to foster farm ownership by the operator. Any provisions for care of the property were largely formalities.

The effect of declining fertility as related to the problem of mortgage financing and the purchase of farms was obscured during the long period from the 1890's to 1920 by the upward trend of farm prices and land values. Following the disappearance of the frontier and its free farms in the nineties, a general rise in the price of farm commodities occurred, and, stimulated by the war, farm land values quadrupled from 1900 to 1920. The farm-mortgage debt also rose in volume, but increasing debt during that period was not a serious problem for farmers. The added burden of expenses and debt payments was readily met out of increased farm returns as prices rose. Credit was ample for the refunding of old loans, including delinquent payments, into new and larger mortgages. The extent of this debt expansion is indicated by the fact that the value of the farm land in the United States rose 100 percent during the period 1910–20, whereas the amount of farm-mortgage debt increased 135 percent. The number of farms mortgaged, however, increased only slightly, from 33 percent in 1910 to 37 percent in 1920.

Those forces which tended toward expansion of both production and debt were especially active in the Middle West and in the semiarid lands, where under the favorable conditions of the times a large proportion of the farmers had recently acquired land, chiefly through mortgage credit. The census of 1920 showed that from 60 to 70 percent of the farms in most counties of this area were mortgaged. In Montana and North Dakota and the States extending southward a greater percentage of owner-operated farms were mortgaged than in any other section of the country. Before the end of the period rising land prices had come to be taken for granted and larger mortgages assumed in purchasing farms stirred no fear of risk for farm practice or farm ownership.

It was not until the collapse of farm prices in 1920 and the long decline in farm-land values during the following 13 years that the shortcomings of the prevailing finance methods became generally evident. The many tragic experiences of these years brought out clearly the dangers from high prices and excessive loans, and the peril concealed in mortgage terms and conditions not adapted to agriculture, not only for the gross damage possible to the soil but also by threatening the very basis of the farm family's efforts by depriving it of the farm it sought to own.
Mortgage Terms and Conditions

The vital significance of the terms and conditions of mortgage finance is of universal importance in the United States because so many American farms are mortgaged. In 1920, for example, 37 out of 100 farms occupied by their owners were mortgaged, and in 1935, 42 percent were mortgaged. The proportion of rented farms encumbered has been nearly as large. Most farms are bought on credit; few are paid for outright in cash. Whether a farm is located in an area where land prices are low or high, the cost is usually several thousand dollars. Mortgage financing for farm purchase is largely a device for postponing payment of the cost of the farm and so making possible the necessary saving after it is purchased. As a rule a long period is required to accumulate enough money to pay for a farm completely, and a large proportion of American farmers never succeed in doing so. There are always difficulties in saving the required amount of money from farm income. There are farm-operating expenses and numerous demands for farm equipment, additional livestock or improvements, and family living expenses, which can readily absorb the remaining margin of a year's cash returns, the only source from which saving can be made.

This practical difficulty of saving the cost of a farm may be greater after it has been bought than before purchase, although this is not always recognized when a mortgage contract is signed. Saving to pay off the mortgage under most mortgage contracts requires that payments of a uniform amount must be made every year, even though the year's production of crops or livestock may have been disappointing and prices for farm products may have been low. In contrast, savings before the purchase of a farm may be made whenever there is a surplus available, and the amount may be different from year to year. The farmer who assumes a debt is obliged to plan his operations so as to insure the production of products that will give a cash return when the mortgage payment is due. If he raises livestock, it usually requires a longer period to mature and requires the investment of more funds, and he may have to sell his stock to meet payments. The result is that a smaller share of the produce grown on the farm is returned to the soil. The farm with a heavy mortgage is more likely to be used to produce wheat or other cash-grain crops rather than clover, alfalfa, or other soil-building crops, most of which are not sold for cash but are fed to stock. Under such a production system the soil becomes deficient in nitrogen and humus, and if the practice is continued over a period of time, it robs the soil and depletes the farmer's principal capital. Unfortunately, the results are not always apparent until the danger has become serious, when only a large investment would restore fertility to the land.

Abuse of the soil from credit causes may arise from any one of several situations. The most serious is the initial purchase of a farm at a higher price than is justified by the farm income in ordinary years. This was a common cause of difficulty in the farm depression after 1920. Regardless of lowered income a fixed mortgage payment continues to be required and every attempt to meet these requirements, even at the expense of the soil, may fail. Soil injury due to
an excessive credit burden is likely to be particularly serious just after a farm has been purchased, when the debt is large, few payments on principal have been made, and the family savings have been largely invested in the farm. Unfortunately, this situation is most likely to occur following periods of land boom, during which many farms are bought at high prices and debt is incurred.

Another shortcoming of traditional farm-mortgage practice in the past, emphasized in the depression of the 1920's, has been the short term of the typical mortgage loan. Brief terms of 3, 5, or 7 years were common until recently. In 1924, for example, 75 percent of all farm-mortgage loans had terms of 5 years or less. This system left the farmer with no alternative but to renew his mortgage loan at the end of its term on whatever conditions he could obtain, since a much longer period than 3 to 7 years is required to save enough to pay off the principal. Moreover, many of these loans were straight loans, requiring no annual reduction in principal, but making the full amount of the loan payable at maturity.

In important periods of American farm development the supply of credit has not been adequate for legitimate needs. In the early 1920's much refunding was possible, except in the worst areas, but in the early 1930's there was a great scarcity of funds until 1933-34. Many farmers have found it difficult or impossible to obtain a renewal of their outstanding mortgage loans when they fell due at the end of a short period. Much of this kind of difficulty has now been relieved by the introduction of loans for 30-year periods by the Federal land banks and certain private lenders, which also carry provisions for amortization by annual payments, usually of about 1 percent on principal. Notwithstanding this great improvement there are still many short-term straight farm mortgages in effect.

High interest rates, resulting in a charge in excess of the rate that could be earned by the farm, have been another handicap to farm ownership. In 1928, when outstanding farm loans averaged 6.1 percent for interest, mortgage rates in some sections of the country averaged between 7 and 8 percent. Although marked differences in the cost and risk of lending must continue to exist between areas, part of this difficulty in the past has been due to the unorganized condition of the mortgage market.

**Danger From Too Low Interest Rates**

Strangely enough, the difficulties of soil conservation and farm ownership may be increased as a result of very low interest rates in the financing of farms. Mention has been made of the effect of high land values in making farm purchase difficult for tenants and other farmers with small savings. One of the causes of high land values may be financing at low interest rates. Just as an investment is valued according to its earnings, farm land is worth what the income will pay interest on. If the net return per acre is $3 and the interest rate on loans is 6 percent, the farmer can afford to pay $50 per acre for the land. If the interest rate is 3 percent, the buyer can afford to pay $100 per acre for the same land, since $3 of income will pay carrying costs on a debt twice as large as when the interest rate was 6 percent. Consequently on every farm which acquires a loan at a lower rate of
interest, the capital value of the mortgaged part rises in proportion as the interest rate declines. Farms having favorable financing on their loans are more readily bought and sold than others. If the interest rate which the loan carries is especially low, a higher price will be paid by the purchaser. Low rates are an inducement to refund old loans to gain more favorable terms, and are an inducement to buyers to pay a higher price. It therefore happens that a low rate available for a sufficient length of time and applied to a sufficiently large proportion of farms may have the effect of raising the level of land values as the basis for loans and taxes. This process may raise farm-land prices to a level at which it is difficult for young farmers and others to acquire farms. Once the high land values are obtained they become the basis for larger amounts of credit, since the buyer's down payments from savings usually will be proportionately smaller and the mortgage given back to cover the cost must be larger. Even though no loan agency makes the loan, an enlarged debt may be created between the buyer and the seller reflecting the high value of the land.

The danger to soil fertility and ownership from high land prices becomes evident where land values decline. If, as in 1920, land values decline owing to a period of low farm returns which reduce the farmer's income, the indebtedness on the land is greater than can be obtained in a new loan based on the lower value of the farm. If the farmer is unable to pay the difference in the amount of the two loans, he may lose his farm and become a tenant.

Likewise, if the rate of interest rises and requires a greater amount of the farmer's income than he can afford, there is a reversal of the situation created by low rates. For if the farm debt is heavy and the rate of interest rises, the farmer's income will not pay the cost of carrying the credit obtained when rates were low. Difficulty of paying the higher credit charges may then cause the farmer to strain his resources, to make demands upon the soil which reduce its fertility, and in the end to lose his farm and become a tenant.

The least danger to soil and ownership on account of interest rates is likely to occur where there is a fairly uniform interest rate of such amount as will cover the cost of funds and the risk involved in the loan, which may be expected to continue over a long period of time, and which will permit the financing of the debt if necessary on a basis not greatly different from one period to another.

**Effect of Farm Financing on Tenancy**

The same conditions of financing that tend to result in deterioration of the soil also tend to make farmers lose their farms and hence to increase farm tenancy. A farm on which the soil is deteriorating is not only less productive but is a more difficult place for the owner to hold than a good farm, because it does not readily produce enough to meet mortgage payments. Moreover, if a substandard farm is purchased without adequate capital to build it up, it may be lost. If the farmer cannot meet the mortgage payments, delinquency will expose the loan to foreclosure, and the one-time owner may again be a tenant, having lost his savings in his poorly chosen or poorly financed farm investment.

The increased amount of tenancy found in the United States in 1938 is partly a result of the low prices through the long period of
agricultural depression that began in 1920, together with the fact that most mortgage-loan contracts made by farmers during the preceding boom period were not adapted to the economic conditions that developed. Foreclosure of mortgages in the years 1920–30 were high; in 1933, 5.4 percent; in 1935, 2.8 percent.

The adverse operation of depression forces after 1920 not only caused many owners to become tenants but also prevented many tenants from undertaking ownership. The burden of a fixed annual charge, which had caused neighbors to lose their farms, was effective in restraining many prospective purchasers from assuming the financial responsibility involved in buying a farm. Ownership and operation of a farm call for capacity in management and industrious application of the best practices. Even under favorable conditions many families find the undertaking too difficult. Hence under depression conditions, when there is an unfavorable relation between debt costs and farm returns, or in years when crops and prices are poor, even qualified tenants or sons of farm owners who want to operate a farm may be wisely reluctant to assume the responsibilities of ownership under the credit terms usually available.

LAND TAXATION

The heart of the farm- and forest-tax problem is the general-property tax. This is the one tax levied generally against rural real estate. Various other taxes are paid by rural landowners but have little or no direct influence on land use. The effects which the property tax tends to have on the use of land in rural communities may perhaps best be discerned by considering in order the total weight of this tax, its inherent nature, its practical operation, and finally, the nature of private uses of rural land.

Total Weight of Property Tax

Since colonial days, land (used in a broad sense to include buildings and other immovable improvements) has always been a major part of the tax base depended upon by local government. The State governments to a large extent have turned to other sources of revenue, but the counties, towns, school districts, and other units of local government still depend chiefly on the property tax.

This tax, which is tending to become more and more a tax on real estate alone, has borne the brunt of increasing needs for local governmental services. It has been generally utilized to make up deficiencies in revenue needed immediately to meet increasing costs but not available from other sources. Consequently, except in major economic depressions, the property tax has tended to increase continuously, regardless of intermediate fluctuations in property value. Property-tax increases, supposedly temporary, have become permanent, and when other sources of revenue have been developed for the announced purpose of relieving the property tax, they usually have soon been absorbed by new requirements.

Not only has the property tax borne a major portion of the requirements for local government revenue, but also these requirements are often needlessly high. As a rule, local government is not organized and administered in a manner fitted to modern conditions or in keep-
ing with the best principles of public administration. Modern invention has so improved travel and communication that units of local government which were once necessary to the convenience of the public have become much too small. Many of these districts are both too small to be efficient units of administration and too weak in resources to support properly the functions with which they are charged. Also in some States various special tax districts are superimposed on the local government pattern. The perpetuation of all these units results in the election and support of superfluous officeholders, duplication of machinery, diffusion of responsibility, and a generally poor quality of service at high cost.

For the country as a whole, and for nearly all States, farm-property taxes per acre increased greatly from 1900 to 1920. During that period, however, farm-land values as reported by the Bureau of the Census increased to nearly the same extent. From 1921 to 1929, farm-property taxes per acre for the country as a whole continued to increase slightly, although land values persistently declined. From 1929 to 1934, farm-property tax levies decreased about 36 percent concurrent with and following a devastating decline in farm income. By 1933 farm real estate values had turned upward, and since then have increased about 16 percent. This decrease in tax levies was not the result of decreased need for revenues, but rather of the inability of farmers to pay, as indicated by the tripling of rural real estate tax delinquency from 1928 to 1932. Apparently the convenience and elasticity of the property tax as a source of local public revenue, coupled with the high cost of local government, have brought about too great a reliance on this form of taxation (fig. 1).

The resulting weight of property taxes has a distinct bearing on rural land use. Where farm income in a given period is too low to support an acceptable standard of living, the farmer, of necessity, will

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**Figure 1**.—Index numbers of farm real estate taxes per acre in four selected States, 1890–1936. The four State indexes shown here represent in a general way the form and variations in trends of farm real estate taxes for the 48 individual States. They do not represent extremes. For example, the series for some New England States rose higher than that for Connecticut; some South Atlantic State series rose higher and fell more rapidly than that for Virginia. Nevertheless all State series show this general shape, and a large majority of them cluster closely about the four represented here.
use every expedient to increase his current net returns. Such expedients are likely to include redoubled effort, concentration on cash crops, and destructive use of farm and forest resources.

The forest landowners, where the original timber stands are severely depleted, as they are in most parts of the country, also feel impelled to meet the current tax bill and other necessary carrying charges by selling any products available, regardless of the effect on productivity of the land, and to eliminate current expenses that are essential to protection and improvement. Property taxes thus encourage premature liquidation of timber and sale of cut-over lands for agricultural purposes regardless of suitability.

In short, too great reliance on property taxation in rural communities tends to promote short-sighted land use which, if persisted in, brings about serious deterioration of the land resources.

**Inherent Nature of the Property Tax**

To appreciate fully the effects of property tax apportionment it is essential to distinguish between those conditions which arise out of the inherent nature of the tax—effects which would follow even though the law were perfectly administered—and those which flow from imperfect or illegal administration. The inherent effects will be discussed first.

The base of the property tax is value, and value for this purpose is generally accepted as voluntary exchange value, reflecting present worth of expected future income. Accordingly, the base of the property tax does not fluctuate with changes in income from one year to the next. Taxes are payable whether or not income is available for this purpose in the particular year. The lack of response of property-tax levies to current receipts of income, while an advantage from the public revenue viewpoint, will under some circumstances be a disadvantage from the standpoint of developing far-sighted land use.

The case is less serious where the deficiency in income is only for a year or two, but it may become extremely serious where the deficiency is long continued. Extended income deficiency occurs generally in respect to all lands in times of severe economic depression. It is also chronic in respect to certain types of land in their present condition, such as forest land that has been so severely depleted that the process of restoration to full productivity requires many years.

If all land were yielding a regular annual income, a universal and perfectly administered property tax would take the same percentage of income from all land and would merely reduce the amount of the net income available to the owner. It would have little or no direct influence on land use. The only way it could destroy private ownership would be by the levy of taxes equal to or in excess of income. Assuming a gradually increasing tax rate, it could not theoretically take the entire income and thus destroy private ownership, because value would fall as the tax rate rose, and even a high rate based on the residual value would leave a part of the income to the owner. Whether income is realized regularly or is deferred, the property tax merely divides the total value (which the property would have without imposition of this tax) between the private owner and the public. Where there is possibility of competition for land between uses involv-
ing either current or deferred income, even this perfectly administered property tax will tend to force land into uses yielding current income with which to pay the annual tax bill. Such a tendency may be socially desirable so far as it concerns certain classes of real estate like vacant city lots. It may also have been desirable in stimulating the development of a major portion of agricultural, mineral, and other lands now established on an economic basis.

But the period of such development is now largely past. At present the effect of the property tax on rural lands that do not yield a uniform flow of income is generally adverse. Its influence is toward increased production of annual cash crops by excessive and undesirable use of the land resources. As a result of the cash requirements for current operation, to which this tax contributes, and the short-term fluctuation in economic conditions, a wide margin of the poorer land in one farm ownership is likely to be shifted from one use to another so frequently as to lose much of its possible usefulness in building up reserve resources for future utilization. Temporary improvements and operating facilities are overemphasized; permanent maintenance and improvement of physical capital are neglected; lands fit only for permanent pasture or woodland are broken up; wood lots are pastured, neglected, or cleared; timberlands are operated by methods which destroy the growing stock necessary to continuous production. It is not intended to imply that where these conditions are found taxation is necessarily the sole or chief cause; taxation is, however, an important contributing cause.

Aside from the facts that the property tax is an inescapable annual charge regardless of current income and that it is subject to unpredictable changes of rate, an element of uncertainty as to its amount is added through the tendency at times for land values to become distorted by speculative excesses or widespread misconception of future land use. Assessors often ignore local or sporadic speculation, although where exchange values are clearly affected they are required by law to recognize this condition in assessment. Where the speculative fever is widespread and violent, as in Florida in 1925, the swollen condition of the tax base has led to uneconomical construction of public improvements and extravagant expansion of public services. The ultimate result, when the speculative booms have subsided, has been extensive tax delinquency and bankruptcy of local governments. Sometimes only one class of land is affected. Thus, cut-over land in the Lakes States, which is now generally recognized as suitable only for recreation and forestry, was at one time mistakenly considered to be potential agricultural land. As a result of this misconception a tax burden was imposed on this land above that which the business of forest growing could bear and uneconomical attempts at agricultural development were encouraged. When the true character of the land became generally apparent, these attempts were abandoned and widespread tax delinquency followed. On the other hand, current land use and corresponding price may in some instances ignore certain income possibilities, in which case the tax base is low and owners are encouraged to hold the land out of the most suitable use. This situation is not often found, however, in rural communities at the present time.

Undoubtedly a well-considered shift in the use of land is often desirable. Frequently land-use zones have been altered under pres-
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sure of changing price relationships that have caused farmers to change their type of farming. On the other hand, society has suffered significant losses through unwise development and later destruction or neglect of orchards, irrigation systems, drainage areas, and forests, as well as by speculative holding and neglect of land which should be developed and productive. Unnecessary shifts are expensive. For example, fluctuation of land between farm and forest use usually leads to inadequate returns from either type of utilization.

Where income deferment is necessary in order to build up the productive capacity of the land, it may be difficult to finance the annual property-tax bill. Furthermore, the portion of income taken by this tax, even if the tax is perfectly administered in accordance with the law, is greater than in the case of property which yields a regular annual income, through the necessity of paying taxes in advance of the receipt of income. These features could well be disregarded were equity alone at stake, since the investor in deferred-income properties, knowing the character of the property-tax system and the necessity for income deferment, may be presumed to pay a correspondingly less sum for such a property, thus offsetting the effect of the expected tax burden. From the land-use viewpoint, however, the disadvantages of paying taxes over a period of years prior to receiving income are important. Where the land may be used in different ways, the effect of the property tax is to favor the use which yields a regular annual income against that which requires deferment of income. This result is especially discouraging to the use of land for growing forests.

Small and intermediate forest properties often afford substantial harvests only at infrequent intervals, because in many cases it is impossible to market at a profit the production from only a few trees at one time. It is not always practicable, therefore, to manage such properties to receive annual income sufficient to pay charges. Large properties, as well as smaller tracts with access to favorable markets, may be so managed eventually, but where the forest has been badly depleted of timber, the typical condition in this country, a long period may be required before a sustained yield is possible.

In other words, it is usually necessary to defer receipt of substantial income over a period of years in order to bring the forest back to a condition where there are enough trees of different sizes so that a harvest of the larger trees may be obtained annually or at short intervals. If prices of timber on the stump were closely responsive to the cost of growing such timber, the disadvantages of deferment or irregularity of income might be overcome by increased returns. Stumpage prices are not so responsive, however, partly because of substantial old-growth timber supplies, inherited by society without charge for growth. Thus, whenever a portion of an existing forest is to be cut, the question arises whether it would be more profitable to maintain the forest as a going concern, or to begin breaking it up after the cutting, putting the land to other uses or allowing it

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1 This conclusion assumes, however, that the income from annual-yield use will not become subject to the tax. Either this income will be consumed or it will be saved in some form to escape the tax, at least in part. In other words, the differential burden applies to all investment or savings, and deferred-yield properties are a type on which accruing gross income in a physical sense is perforce saved as added investment. D. J.
to revert to public ownership. The property tax exerts a direct influence on the decision in such cases. Of course, fluctuation in prices and other factors also exert an influence.

A forest property from which the timber has just been cut may, without taxes, be worth more for continued timber production than for an annual-yield use such as grazing. Subsequent imposition of a property tax will nevertheless reduce the timber-growing value more than it will the annual-yield value, and may make the property worth less for the deferred-yield use.

As an example of the effect of the property tax on land use, consider a forest property from which the timber has just been cut. Assume that this property would have a value, if no tax were imposed, of $5 per acre for a deferred-yield use such as forestry and of $4 per acre for some use, like grazing, that would yield an annual return. But if a property tax is imposed, the ratio of taxes to net income before taxes (both compounded or discounted to the same point in time, and both covering the same income cycle) in the case of the deferred-yield use may be 40 percent—a very common tax ratio among forests—and in the other case perhaps 20 percent. Since the effect of the tax would be to reduce the value before its imposition in proportion to the expected reduction in income, the value for the deferred-yield use is under these circumstances reduced to $3, and for the annual-yield use is reduced only to $3.20. Thus the margin for deferred yield has been so shifted that areas that would be used for forestry were it not for this effect of the property tax are now available only for grazing or other use yielding annual income.

This feature of the unmodified property tax tends toward use of lands for grazing or cultivated crops which from a long-time point of view are better adapted to forestry.\(^3\)

**Faulty Administration of the Property Tax**

So far, only the effects of the property tax under theoretically perfect administration have been considered. In everyday operation, this tax is a very different thing from the ideal property tax contemplated by the spirit of the laws which govern it. Some aspects of its ordinary operation as distinct from its theoretical effect are likewise adverse to making the best use of rural lands.

It is evident that a fair assessment is essential if the property tax is to work out as contemplated. All studies of assessment practice have shown that, in most localities, there is a high degree of inequality of assessment among individual properties. Many causes of such inequality have been found. Without discussing them in detail, it is sufficient to note that they include lack of expert judgment on the part of the assessor; inadequate information in the assessor's office; pressure to favor certain individuals or groups of owners; inadequate provision for the necessary cost of careful work; and lack of provisions for classifying land, especially within a property or parcel.

The nature of the inequalities usually found is of importance and deserves consideration from the viewpoint of land use. It has been found in studies of assessment practice that there is an almost universal

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\(^3\) The tendency results from the desire to avoid exposing an investment of increasing size to the burden which the property tax places on real estate. D. J.
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The tendency to overvalue lands of low price per acre in comparison with those of high price. One of the reasons for this tendency may be a natural inclination of the assessors to rely too much on average figures, so that property is likely to be overassessed if under the average price and underassessed if over the average. Whatever the causes, this tendency to overburden property of low value operates to the disadvantage of poor farm lands and of cut-over and immature forests.

The illogical apportionment of functions among units of government also brings about inequalities in the property-tax burden. Property taxes are levied by various types of jurisdiction, many of which are overlapping—such as State, county, town, and village, and school, road, and drainage districts. An individual property may lie in one or in a number of these districts, one superimposed upon the other. Benefits do not correlate with geographic limits of districts, and often the properties within a district do not benefit equally. As a result, there is likely to be marked inequality of taxation, not only among communities in the same State, but among the properties in any one community.

Inequalities in taxation that would not be very important with low property-tax rates become serious indeed when these rates are high. It is apparent that in most States there is an unwarranted difference in tax rates among different localities, when such rates are adjusted to the basis of actual value to permit fair comparison. Abnormally high tax rates often lead to tax delinquency, and when applied persistently to assessments in excess of actual value tend to force land out of private ownership. Sparsely settled communities and those not favored by nature with rich resources are especially likely to suffer from these conditions. Such communities are frequently in land-use problem areas which can ill afford this added burden tending to misuse of land.

Tax-collection procedure may be a cause of inequality, if it becomes dilatory and inefficient. In recent years the heavy weight of taxation, greatly increased by the depression, has brought about a tendency to extreme leniency toward delinquent taxpayers. Such leniency has been carried in some States to the point where there is positive inducement to let real-estate taxes go unpaid. Where inefficient collection thus encourages tax delinquency, it often results in the levy of additional taxes on the lands whose owners continue to pay. Inequalities resulting from defects in tax-collection procedure, like those from faulty assessment and illogical apportionment of governmental functions, tend to promote undesirable shifts in use of rural land and to hinder needed readjustments in areas where land-use problems are critical.

Nature of the Farm and Forest Enterprise

It may be observed that many of the disadvantages of the property-tax system that have been cited affect urban as well as rural property. For example, there may be too great a reliance on the property tax in urban as well as in rural districts. It is difficult to make a fair comparison of the burden of taxation per dollar of property value as between rural and urban communities. Proper account must be taken of the differences in governmental services rendered; and the
various tax rates, applied to assessments representing variable portions of actual value, must be adjusted to a comparable basis. For the purposes of this discussion it is unnecessary to make such a comparison.

The significance of taxation from the land-use viewpoint is not principally concerned with relative tax rates or burden of taxation per dollar of real-estate value, but with the effect on urban and rural enterprise. Urban enterprise usually involves a relatively large investment in capital instruments that are only in part subject to property taxation, while the typical rural enterprise, in either farming or forestry, requires a relatively large investment in real estate.

Not only is it true that where property-tax rates are high, the public equity in real estate is high and the private equity low, but the property tax constitutes essentially a fixed charge, that is, one that must be met before providing for other requirements. If much of the investment is in real estate, the financial difficulties of the enterprise as a whole are intensified. Any enterprise that is subject to a relatively high fixed charge against its income is peculiarly vulnerable to economic disturbances, unexpected increases in taxation, and other unfavorable developments, since the relatively small portion of expected private income is easily wiped out. Also, capital invested in real estate can usually be liquidated only at considerable loss if changes in the tax situation or other factors make the enterprise unattractive.

There are periods such as the early 1930’s when farm lands could be sold only at great sacrifice.

In most regions there is always a poor market for young forests, the products of which would be merchantable only after a period of years. Accordingly, high property-tax rates, especially when subject to erratic administration, introduce a heavy element of risk and are more of a deterrent to rural than to urban enterprise. This element of risk aggravates the tendency toward current exploitation of the land resources and discourages their conservation and development for sustained production.

When the property-tax system grew up in this country, the need most felt was for immediate development rather than for conservation. The demand of the present and the future is for restoring the wastage that accompanied this development. This demand calls for some modification in the tax system together with more direct measures to promote the improved utilization of our land resources.