TAXATION

An Important Question Affecting The Interests of The Citizen and The Commonwealth.

SHALL KENTUCKY'S OPPORTUNITIES

BE EXTENDED FOR

GREATER GROWTH?

LOUISVILLE, KY.

August 15, 1906.

INDEX.

I.

TAXATION.

THIS OUGHT TO, AND DOES CONCERN YOU.

The notable fourth Kentucky State Development Convention, held in October, 1905, was presided over through the three days' session by Governor Beckham and United States Senators Blackburn and McCreary (nearly one hundred counties represented). One night session—Senator Blackburn presiding—was wholly set apart for the discussion of the important question of *Taxation*, in its bearing upon the welfare of the State.

The subject was opened by a carefully prepared paper by Senator Cammack, of Owen County, chairman of the State Revenue Revision Commission.

Senator Cammack declared as result of his investigations, "after gathering together the revenue laws and financial reports of nearly every State and Territory . . .we were astonished to find that Kentucky possessed one of the crudest and most defective revenue systems of them all"—"our laws relating to assessment of property, and collection of taxes are abominable."

Strong terms, from a trained lawyer, and one chosen to be chairman of so important a commission, by the Senate of the State. Other speakers followed, without exception clearly pointing out unwise provisions in our *system*, generally the result of most unwise Constitutional restrictions, and the Convention by unanimous approval appointed a committee of fourteen—three from the State at large and one from each of the eleven Congressional districts—"to urge upon the next General Assembly the passage of a bill submitting such constitutional amendment to the people, and the passage of such acts as will under the limitations of the present Constitution, cure existing defects in the present revenue laws"

Ex-State Senator Charles Carroll was appointed chairman of this committee.

The writer was requested by Senator Carroll, as a member of the committee, to appear with him before the Joint Committee of the Senate and the House on Constitutional Amendments, at the session of the General Assembly which met the following January, and present to those Committees matters discussed in the Development Convention, and by its Committee afterward.

We were accorded a most respectful and patient hearing, and the Joint Committee by an almost unanimous vote recommended an amendment to Section 171 of the Constitution, which had been offered by Senator Lancaster, of Marion County, and which it was believed would give opportunity for great improvement in our system of taxation.

Following this hearing some days after, the writer was by the Senate invited to address them, in Committee of the whole, which he did, and the same afternoon the Senate,* by a vote of 31 to 5, on call of the roll, approved Senator Lancaster's amendment.

Under the prolonged and tedious discussion of the new revenue act (some 165 printed pages) in the House, action on the amendment to the Constitution was unfortunately crowded out and never came to a vote, though its friends labored earnestly to secure its consideration, having had good assurance of its passage by more than the requisite three-fifths vote.

So this important measure failed, so far as the last General Assembly was concerned.

From time to time since, the writer has had inquiries by letter and otherwise for information as to various points made in his argument before the Senate, and in order to meet these inquiries and frequent suggestions, he has had this paper printed.

Kentucky is now handicapped and seriously hindered, in his judgment, in her progress by her unfortunate *revenue system*. This, he is convinced, is one of the chief obstacles to the greater development of this great State. He believes that intelligent discussion is bound to lead to a public sentiment which will demand reform. The State will certainly not grow as she ought without it.

Let it no longer be said truthfully that we have "one of the crudest and most defective revenue systems," "our tax laws abominable", and if this paper shall contribute, in small degree, to discussion and action, bringing about better things, the writer will be repaid.

He has no axe to grind.. no end in view. but the good of Kentucky.

*NOTE—Membership Senate 38.

II.

KENTUCKY—ADVANTAGES.

A brief review of our advantages and progress, or lack of progress, give basis for reliable conclusions as to whether our position is satisfactory.

Our great natural advantages are well known—possibly we have relied too much upon them. Let us, however, call to mind some marked points of interest, natural and otherwise.

Center of Population. Kentucky is practically at the center of the United States.

Climate. Is temperate and in first rank of healthfulness.

Soil. Wonderful in productiveness, in great variety—a great agricultural State.

Rivers. Along the *whole* of her northern border—800 miles—flow the Ohio and Mississippi rivers, and transversing a large portion of her breadth, and joining the Ohio, the Big Sandy, the Licking, the Kentucky, Green, Cumberland, and Tennessee, besides other smaller streams, over 2,000 miles in all of navigable waters, leading to the Gulf. Examine your maps carefully and note these pre-eminent advantages.

A "nine-foot stage all the year round from Pittsburg to Cairo," the projected canal from Lake Erie to the Ohio River, and the Panama Canal both completed, 800 miles frontage such as Kentucky has on the Ohio and Mississippi Rivers, gives an advantage to our State simply immeasurable.

Coal. Exceeding the deposits in Pennsylvania and distributed in different sections of the State—and yet we continue large consumers of Pennsylvania coal—and the seventh in rank of mining.

Iron no doubt beyond what has been revealed, for Coal and Iron are by a beneficent Providence almost invariably stored together.

Oil. Petroleum, in abundance now, and greater supply untouched.

Timber. A wealth remaining, waiting manufacture into the useful, to give employment to the skillful mechanics, and exported to other States will yield great returns to our people.

Transportation—of marked superiority. Important railways stretch out over the State for 3,200 miles, adding to our 2,000 miles of water-ways (being steadily improved by the general government)—means of exporting our great products, and importing supplies.

This enumeration suffices to make good Kentucky's claim to great advantages, though much else could be added.

III.

Kentucky—Progress?

Have we progressed as a State in a ratio proportioned to our great advantages?

In the spirit of patriotic loyalty, and full confidence in the great future certainly coming to Kentucky, let us at the same time in all frankness fairly weigh conditions. Since the adoption of Kentucky's latest Constitution (1891), in which radical change in system of taxation was made, our country has had its greatest substantial material progress.

Tested by certain unfailing signs, has Kentucky within that period had her fair share?

Population. The last United States census (1900) gave net increase in the United States as 20 per cent. Kentucky only 15 per cent (less than either Alabama, Arkansas, Georgia, Louisiana, Mississippi, Pennsylvania, West Virginia, etc.), the whole United States being 33 1-3 per cent more. In 1890 Kentucky stood eleventh in the list; in 1900 we dropped to twelfth, Georgia taking our place.

Immigration. Of course we want only the best class—only 600 of the 1,020,000 who reached our land last year found homes in Kentucky.

Take area for area with Massachusetts, Kentucky could include 10,000,000 in her population (instead of 2,250,000) with vast room still to spare (and far better lands) awaiting cultivation and made to yield great increase.

As the Hon. Wm. Rogers Clay, of Lexington, in his splendid speech before the fourth State Development Convention, put it, "we have now fertile uncultivated land in our fence corners sufficient to feed a million."

And 600,000 native Kentuckians are recorded as living in other States, equal to one-fourth of our present population.

Railroads. Kentucky in 1900 ranked only twenty-third in the forty-five States in railroad mileage. In decade then ended we built only 150 miles, though in previous decade there were added 1,500 miles.

Banking Capital is entirely insufficient to propel strong growth.

In Louisville, our chief commercial center, there has been an actual *reduction*—between 1890 and 1905 (fifteen years) of banking capital—as represented in the clearing house, of 33 1-3%, while deposits have nearly doubled, the direct result, as the writer believes, of excessive taxation (i. e., large increase over our former rates, as well as much higher rates than those prevailing in progressive States).

Savings Banks. But little progress made.

In a report of a list of States examined, Kentucky does not appear at all. Massachusetts shows deposit in Savings banks, largely of wage earners, of over $500,000,000—more than total assessed value of all real estate in Kentucky $(485,000,000!)

Where is the inducement to deposit with three per cent annual interest, when the law exacts from the depositor in most Kentucky towns and cities, in annual taxes from two and one quarter to three per cent (State, county and city included).

Savings banks deposits are a certain index to the prosperity of the mechanic and laboring man..

Building and Loan Associations should show large increase.

A writer says of the value of these Associations to the workingmen, "the amount of thrift on a small income and the number owning homes is larger than in any other system of savings known."

Pennsylvania has one-fifth the number of these Associations in the United States. It is stated that more homes are owned by workingmen in Philadelphia than in Greater New York and London combined, and that tenement houses, such as the two latter cities have, are unknown in Philadelphia.

And ownership of homes is one of the best guarantees of good citizenship.

Manufactured Products. Increase value as per United States census 1900 for ten years past, Kentucky increased only 22%—about $28,000,000 (previous decade 65%).

Alabama, 60%; *Arkansas,* 100%; *Georgia,* 55%; *Indiana,* 70%; *Louisiana,* 111%; *Mississippi,* 110%; *Tennessee,* 50%; *West Virginia,* 95%; *Pennsylvania,* 40% (but about $500,000,000!)

Kentucky ranked forty-first State down the list in Inventions, as recorded last year in Washington.

Do not these tangible facts indicate something wrong—something lacking in Kentucky? *Something we can, and must cure?*

Nothing the matter in our God-given advantages—our boundless natural wealth.

Much the matter somewhere in our man-made methods.

IV.

The Hindrance.

Is not our method of taxation mandatory under the Constitution mainly responsible for lack of greater material progress?

Taxation since Government began, the most difficult of all public questions—the need of readjustment from time to time is everywhere admitted—a conclusive argument for provisions in Constitutions, admitting of changes, by the Legislature—the chosen representatives, fresh from the people—Constitutional restrictions such as we have in Kentucky certainly are and must continue to be injurious to the State.

We are directly dependent for development upon an abundant supply of available local *capital,* and this we limit, or repel, by taxation, in most of our Kentucky cities at a rate nearly equal to prevailing rate of interest earned by capital in the great financial centers in the East, whence we must draw our increased supply of money.

A supply will never come in large volume with such a hindrance.

Capital, like water, *will* flow to the point of least resistance.

We have made the mistake, in my judgment, in Kentucky in taking largely a *theoretical* view of this subject, without due consideration of the important practical question as to how it affects the interest and development of the whole State, when compared with *other States* competing with us.

We must do this, or we shall fall behind them. This must be a clear proposition at a glance.

V.

Search for Improved Method.

A most careful investigation of policy in many States, extending over several years, by correspondence and personal visits by members of the Joint Committees of the Louisville Commercial Club and the Louisville Board of Trade, on Municipal Taxation, of which the writer has been chairman, reveals wide and singularly varying plans for raising revenue—some wise, some like Kentucky, otherwise.

In such a complex public question, involving great interests, if a system is found, of proved success—raising ample revenue, equitable, and *notable in* developing marked prosperity, it would seem wise to follow in that line—to adopt that *system*—so far as it may be made to meet differences in conditions.

After most thorough and painstaking examination it is the writer's conclusion that the State of Pennsylvania and the cities of Pittsburg and Philadelphia furnish the very best of models for Kentucky and all our Kentucky cities, and he believes if we now follow them, the effect would be marked and give wonderful impetus to the growth of our Commonwealth.

VI.

A Comparison.

A general exhibit of the Pennsylvania system and comparison with working of our own, will give the writer's reasons for his conclusion and clearly illustrate he believes to every unbiased student of the subject the great disadvantages with which we have hampered ourselves, and which have, and are now standing directly in the path of Kentucky's great development.

PENNSYLVANIA (1905 latest information obtained).

Note characteristics of their system.

No general property tax "at uniform rates."

All property is *classified,* and within that class, tax is uniform, and no class is taxed more than once (none therefore excessively), State and counties and cities deriving revenue from different classes.

State. No tax whatever on *farm lands* or city *real estate,* but derives revenue from

Public corporations.

Personalty—all bonds, securities, etc (a low rate).

Licenses, mercantile, banks, etc.

(*Factories—no tax.*)

Counties. Tax farm lands, each county for its own local needs. Alleghany County (Pittsburgh) rate is 26½ cents on $100, and repayment by State of certain portion of tax on personalty, derived from that county.

City (Pittsburgh, city second class). Taxes only *real estate inside* corporation limits, and grades in three classes—a most just provision—note the very low rates:

Central, having all public utilities, at $1.30 on $100.

Suburban, having partial public utilities, two-thirds of this rate.

Outlying, having few public utilities, one-half. Add for schools 1 cent to 12 cents in respective districts, on $100.

And vehicles, horses, etc., using highways at $1.30 on $100, and this the only personalty taxed.

City (Philadelphia, only city first class). Coextensive with Philadelphia County, same plan as Pittsburgh, graded three classes, $1.50 and down, for Central, etc. This of course covers both city and county needs.

And vehicles, horses, etc., $1.50 on $100 valuation and no other personalty tax.

And *Cities*—receive back from the State a certain portion of license taxes collected in that city.

In Pennsylvania. Rates named include entire taxes upon following classes:

Banks and Financial Institutions are taxed annually one per cent on actual paid up capital stock, or forty cents on $100 of assets (capital, surplus and undivided profits)—each has *option* of either plan.

Manufacturers. Pay no taxes, except the local tax on the plant—real estate.

Is it any wonder that Pennsylvania has drawn to herself and developed wonderfully these prosperity builders?

Kentucky and every State, pay large tribute to her wisdom and foresight, as her customers. It is said that Philadelphia, with a population of one sixtieth of the United States manufactures annually one-twentieth of all the factory products of the country.

The Government report for 1900 fixes value of Pennsylvania manufactured goods that year at $1,834,790,860!

Merchants—Wholesale, pay 50 cents per $1,000 actual sales per annum.

Philadelphia claims one thousand jobbing houses, doing an annual business of $500,000,000 (sales), and large number smaller houses.

Merchants—Retail. $1.00 per $1,000 sales per annum.

KENTUCKY (1906).

Characteristics.

All classes property taxed ad valorem alike at uniform rate. *All* must be taxed at least *twice*. Once at one rate for the State, at another rate for county, and if located in a city *all* taxed a *third* time for city purposes, ad valorem.

Counties and Cities each fix their own rates.

State rate fixed by the General Assembly is now fifty cents on $100 valuation, uniformly on *each* and *every* class of property over whole State.

To illustrate: In Jefferson County rate is 31 cents makes tax on farm lands and all other property 31 cents plus State tax, 50 cents, equal to 81 cents. In corporate limits of Louisville add city rate $1.80 to County and State 81 cents and we have a *triple* tax rate equal to $2.61 on $100 on every species of property.

Same system of course exacted in all other counties and cities, in some more and others less than in Jefferson County and city of Louisville, but everywhere bear in mind a State tax with county tax, and if in a city a third tax in addition.

Banks and financial institutions obviously must be located in cities, and hence *must* pay the triple tax—if law is strictly enforced—well nigh *prohibitive* for *safe* banking.

Factories also must be established in cities, because of labor, transportation and banking facilities, and they must therefore also pay this *triple* tax.

And as if this were not sufficient, under Kentucky revenue act of 1906, all incorporations (industrial) must pay to the State, in addition, an annual "privilege" tax of thirty cents per $1,000 of capital employed (statement of this private matter to be filed annually at Frankfort under oath), or they may (at their option) pay this rate on their "authorized" capital—i. e., taxing capital—not what they possess, but which possibly they may hereafter have. This after the payment to the State of $1.00 on the $1,000 of "authorized" capital, as a fee, at time of incorporation.

Four distinct *annual* tax charges then in Kentucky, upon every industry if incorporated, and located in any city, viz: On valuation for (1) *State,* (2) *county,* and (3) *city,* and (4) this privilege fee. Is this a policy to encourage industries?

Then in the city of Louisville, it will be seen

Manufacturers,

Merchants,

Banks and all financial institutions,

Real estate,

Personalty.

Even non-interest bearing deposits of *cash* in bank pay alike, this year, the *triple rate* of $2.61 on $100 valuation.

In Kentucky for State, county or city purposes, for farmers, manufacturers, merchants, banks, real estate or personalty owner, no *deduction* is permitted *under the law,* for indebtedness—mortgage, notes for money borrowed, or other—all are taxed upon valuation of entire *gross* assets—a great injustice to the large debtor class.

Another point—taxation in Kentucky of the property of her citizens, in other States, held by them as stockholders—the property paying full taxes where located, and receiving no benefit in Kentucky, is manifestly unjust. It is a serious and direct restraint upon trade and business interests, and is a narrow policy which works an injury to Kentucky.

A wrong is no less a wrong because legalized by the State.

New Jersey, as an example, in her "Instructions to Taxpayers," directs specially that no return is required of interests in property located in other States, held by her citizens as Stockholders, provided the property pays taxes where located.

A simple matter of justice—denied by the State of Kentucky to her citizens!

"*Equalization*"—the Kentucky Revenue law provides that, all Personalty subject to equalization, shall be subject to any change made by the State Board at Frankfort, in assessment of *farm lands* within a county—whether increase or decrease.

What an absurdity!

Because the County Assessor's work as to farm lands is adjudged incorrect, and changed by the State Board, the same percentage of change *must* be applied to Personalty (Classes 19 to 74 in list embracing Personalty of Farmers, Manufacturers and Merchants stocks, Household Goods, etc.), of which State Board can have no knowledge and hears no evidence. This after *sworn returns* have been made by the taxpayer to the County Assessor.

For instance, this year in Jefferson County this increase is 16%—one-sixth!

Clearly without reason—arbitrary and unjust.

How long will *this* tax feature be submitted to in this State?

TABULATED—Latest obtained figures. Rates for other Kentucky Cities may readily be made up for comparison, for same system prevails for all.

CITIES	1906 Louisville	1905 Pittsburgh	1905 Philadelphia
REAL ESTATE and improvements on $100	$2.61	3 Classes as to Location $1 30, 86⅔c, 65c	3 Classes as to Location $1.50, $1 00, 75c
FACTORIES, Plant on $100	2.61	As above	As above
All other gross assets on $100	2.61	None	None
License on Sales	None	None	None
MERCHANTS, Wholesale.			
Gross Assets on $100 Value	2.61	None	None
License on Sales on $1000	None	50c	50c
MERCHANTS, Retail.			
Gross Assets on $100	2.61	None	None
License on Sales on $1000	None	$1.00	$1.00
BANKS AND FINANCIAL INST.			
Gross Assets on $100 Value	2.61	40c or option	40c or option
Capital paid up	None	1 per cent.	1 per cent.
PERSONALITY — Bonds, Securities, etc. on $100	2.61	40c	40c
CASH on hand	2.61	None	None
In Bank without interest	2.61	None	None
Population U. S. Census, 1900	205,000	320,000	1,300,000
Total Annual Revenue all sources, say	2,300.000	6,000,000	28,000,000
Total Value Real Estate, say	95,000,000	465,000,000	1,184,200,000

STATES.	Kentucky	Pennsylvania
Area Square Miles	40,300	45,928
*Number Counties	119	67
Population Census 1900	2,147,000	6,302,000
Total Revenue 1905, say	$5,500,000	$23,000,000
Total Assessed Value Real Estate	$485,000,000	$2,766,830,000
Number Manufacturing Establishments 1900	9,560	52,185
Capital Employed	$104,000,000	$1,551,549,000
Wage Earners	62,900	734,000

*Kentucky has far too many—adding largely to expenses.

NOTE that assessed values of Real Estate in Pittsburgh are five times the Louisville valuation and within five per cent. of total values in whole State of Kentucky.

Note, then, based on taxes paid under strict letter of Kentucky laws:

Banks in Kentucky (Louisville as example), taxation has been raised from 75 cents on $100 assets (old Hewitt act) to $2.61, increase of about 350 per cent—they pay as compared with Pennsylvania (Pittsburg or Philadelphia rate 40 cents on $100), therefore six and one-half times as much. Is it remarkable, *our small banking capital?*

Manufacturers. See foregoing table. No comment necessary. It speaks volumes of *itself*.

Merchants—Retail. Estimating ad valorem tax at $2.61 equals say eight times more in Louisville than Pittsburgh or Philadelphia.

Merchants—Wholesale. Estimating ad valorem tax at $2.61, say twelve *times* more in Louisville than Pittsburgh or Philadelphia.

Personalty. Bonds, securities, etc., in Pennsylvania 40 cents on $100; Louisville $2.61 ($4.00 on $1,000, as against $26.10), equals six and one-half times more, almost confiscation of income of four per cent investment, and in Kentucky we simply drive out all non-interest bearing *cash,* which can get out, by $2.61 per cent tax. Pennsylvania does not tax at all.

Real Estate. With all the exaction in taxation in Kentucky of *other* interests, real estate in Louisville and other Kentucky cities is taxed at rates at least double that in Pittsburgh.

Has real estate had any relief then under our narrow, short sighted policy? Clearly not in the matter of taxation. Values are certainly depressed, and buildings and improvements restricted by taxation on capital, and especially upon mortgages issued, whether for improvement of farms, or construction of buildings in cities.

Instead of a decrease in taxes on real estate as was predicted by the advocates of the uniform ad valorem system, we have had an actual increase from 42½ cents on $100, last rate for State under old Constitution, to 50 cents now under the new.

Without exception, so far as writer has found, invariably, low taxation on capital and on all personalty, secures greater values for, and lower rate of taxation on, real estate.

Numerous comparisons further of other States might be made to demonstrate Kentucky's tax hindrance; several are given below as evidence of this.

MISSOURI. St. Louis has much more favorable system than ours (Louisville) for factories and merchants. She leads Louisville in manufacturing tobacco (more than double)—and the leaf is one of Kentucky's great staples—and now North Carolina (1905) has advanced and following Missouri, leads Kentucky, Kentucky ranking third. Kentucky ought easily to stand *first* in this large interest.

The present distinguished Governor of Missouri is quoted as publicly strongly favoring radical changes in taxing personal property.

INDIANA and MICHIGAN direct the *deduction* of indebtedness from amounts due tax payers, and other States do the same.

TENNESSEE, our next Southern neighbor, by her Constitution omits all taxation upon products of her soil in hands of producer, or first purchaser, or in hands of a manufacturer, whether in raw state or finished product.

California deducts all mortgage indebtedness from assessment of real estate.

New York taxes mortgages 50 cents on $100 at time only of record, and no subsequent tax.

Ohio even, with many of our unwise tax features (borrowed of her by us), exempts from all taxations all bonds used for public improvement.

In Kentucky any city bonds issued for sewers or other public works are taxable for State and county purposes, the same as though the place of issue and the public work for the public good was in another State or a foreign country, the work serving to increase taxable values.

Others could be added.

VII.

The Inevitable General Effect.

It is plain that it is unwise to tax those *classes* of property which are great factors in upbuilding, in excess of the taxation upon same classes by other States—classes easily movable, and always located at point offering greatest advantages, and always avoiding points exacting greater annual tribute.

Again, it is now a fact well established by experience that low rate of taxation upon capital or movable property (personalty), results in not only lower rates on real estate (or fixed property), but also enhanced values, to the benefit of the owner, because of the large increase of wealth, or capital, attracted to the locality or State.

Further, a reasonable rate on personalty encourages building operations and improvements—thus adding to taxable real property—brings out larger returns, and yields a larger actual net revenue.

An example: In Baltimore, under a rate on bonds, securities, etc., same as real estate, say $1.50 on $100 (equals say 35 per cent of income of four per cent investment). Assessment ran down to about $6,000,000, revenue say $90,000. Under amended law at a rate of 30 cents on $100 (equals eight per cent of four per cent income), assessment increased to $100,000,000, yielding the city $300,000 income.

One of the most distinguished political economists of this country has said "taxation on personalty is more productive of perjury than revenue."

VIII.

Experience, as to Capital, Especially.

Take Louisville Banks.

A *remarkable* exhibit of effect of our system of taxation, changed under Constitution of 1891:

1890, year prior to date of new Constitution, we had 20 banks:

Capital	$9,926,800
Surplus	4,339,818
Total	$14,266,618

Deposits, $20,980,381.

In 1900 (ten years later) we had only 13 banks:

Capital	$6,373,600
Surplus	2,426,800
Total	$8,800,400

(Deposits not given in report at hand.)

In 1905 13 banks:

Capital	$6,423,500
Surplus	3,039,100
Total	$9,462,600

Deposits (November, 1905), $38,672,830.

In 15 *years,* 7 less banks, about one-third less capital and surplus, *deposits* nearly double.

Trust Companies in Louisville:

Capital, and surplus, 1896, say	$3,150,000
Capital and surplus, 1905, say	4,500,000

I have no report of other years, or of deposits.

In Kentucky, 1905, *all Banks and Trust Companies*:

Capital, surplus and undivided profits, about	$43,000,000
Deposits, about	93,000,000

I have no report for State for 1890 or 1900.

I find from Dun's Review (January, 1906), the following report of banking business in Pittsburgh alone. Note remarkable *growth:*

1890 (May) 59 Banks, etc.

Capital, surplus and undivided profits	$24,000,000
Deposits	71,000,000

1905 (November) 93 Banks.

Capital, surplus, etc	$152,000,000
Deposits	322,000,000

"The above shows the wonderful progress of Pittsburgh's financial institutions."

"The prodigious increase in banking is the reflection of the enormous increase in *manufacturing* lines, in some of which Pittsburgh now leads the world."

"The Trust Companies (not included in the above) show the largest expansion of all the financial institutions—attributed to the *very liberal* charters under which those institutions operate."

In 1890 (May) there were 2 Trust Companies.

Capital, surplus, etc	$1,100,000
Deposits	1,038,000

In 1905 (November) there were 39 Trust Companies.

Capital, surplus, etc	$78,000,000
Deposits	78,360,000

Total Banks and Trust Companies, 1905, 132.

Capital, surplus, etc	$230,000,000
Deposits	400,000,000

NOTE—

Banks and Trust Companies in 1905:

	State of Kentucky	City of Pittsburgh.
Capital (including surplus and undivided profits)	$43,000,000	$230,000,000
Deposits	93,000,000	400,000,000

Banking Capital (alone) in Louisville is equal to only 25 per cent. of deposits—$9,500,000 to $38,000,000; in Pittsburg nearly 50 per cent.—$152,000,000 to $322,000,000. Which is the *safer*, and best for the public good? Surely it takes no "trained financier" to decide such a proposition!

The State of Kentucky with her 2¼ millions of population, a vast area lying uncultivated, great natural wealth stored away and idle, all needing Capital for development, has only $43,000,000 for use in her financial institutions.

The City of Pittsburg alone, with a population of 325,000, has $230,000,000.

Kentucky, a great State of 40,000 square miles of area, with seven times greater population than Pittsburgh, has only about one-fifth the Capital.

Like the inheritor of a great landed estate with little available means, Kentucky, endowed with wonderful natural wealth, but with insufficient capital, is "land poor."

Is it not an absurdity to continue *our* system of taxation upon Capital for one moment longer than time absolutely necessary to effect the change, when it is one of our absolutely greatest needs? !

IX.

Results Pennsylvania System.

Pennsylvania's Auditor's Report (last printed), November 30, 1903 (published tri-ennially):

"*Revenue to the State from Banks, Trust Companies, etc.,* $1,631,615, a gain over *last* year of $280,000.

"This is due in some measure to the large increase in the number of Banks and Financial Institutions, but the unusual prosperity and good management of these Depositories is responsible for most of the increase."

"Pennsylvania apparently stands above every other State in the Union in the number of splendidly managed Banks and the volume of deposits and business transacted."

Note the Auditor's official summary of definite *results*, which ought to interest every citizen of Kentucky.

He states: "Our system of taxation works well in the production of revenue."

"Many inquiries have been received from States all over the Union as to our method of taxation."

"It has very generally been concluded by outsiders that a State with its funded debt wholly provided for, with a balance of $10,000,000 and over in its Treasury, appropriating $6,000,000 annually to its schools, building a $4,000,000 Capitol, and giving $3,000,000 to its charitable and benevolent institutions, must have a system of taxation worth imitating."

"Pennsylvania has much to be proud of in this respect and nothing to blush for."

Closing he says: "The revenues of the State appear to be ample for its present needs, and the outlook for the future is most favorable."

"I deem it hardly necessary to suggest *anything* new in the way of Legislation intended to produce revenue."

Surely this statement must strongly impress every member of every General Assembly which has met in Kentucky *since* 1891 because of their very different experience!

X.

RESULTS KENTUCKY'S SYSTEM.

Our Uniform (so-called) *ad valorem Plan.*

The "general property" uniform tax has been given a trial of about twelve years. Has it proved satisfactory or successful from any standpoint?

Has it resulted in lower rate of taxation on general property or upon any class, either of property, or citizens?

Has it benefited the Commonwealth, general property interests or any class of either property or citizens?

Do not our experience and the plain results show conclusively that important Constitutional changes are now necessary?

Facts have been given herein which show that we are unduly taxing chief factors for development, as compared with other States—factors which make for *Productiveness*—Farm Lands, and Real Estate, Manufacturers, Business Interests, Capital, Personal Property.

Plainly, by lack of proper, equitable and fair adjustment of rates on different classes, we fail to obtain full assessment values. Movable property and capital are driven out and repelled if seeking location here. We get less actual Revenue; we depreciate values of property. For the sake of a theory, we ignore conditions.

We attempt to tax movable property yielding small and absolutely limited income, and no opportunity for increased value, and receiving no direct benefits by expenditure of public revenue, for public improvements, at precisely the same rate as other property having some or all of these advantages, as investments.

We tax all property uniformly, on basis values, without consideration in determining fairness in rate, the income which it yields. This to such an extent that in cases it confiscates practically the major portion of the income, as in case in cities of a 4 per cent. investment.

We tax cash in bank, bearing no interest, awaiting use in active investment, or payment of debts unmatured.

Figure what your family, after your death, would receive net from a safe 4 per cent. investment, after payment of tax required now by law!

Is not simply calling to mind these features conclusive argument for a decision to change Kentucky's system?

XI.

The "Uniform ad valorem," as a System.

Experience Elsewhere.

A State Tax Commissioner in Ohio states, referring to the Ohio "uniform ad valorem system," that "both Cincinnati and Cleveland return one-third less personal property than 30 years ago, though it is well known there has been marvelous increase in wealth in both cities." He pronounces "the system an utter failure here as elsewhere, demoralizing, driving capital in large sums out of the State, unjust to the scrupulous taxpayers, guardian, trustee or executor."

He might have added, a State's burden upon the dependent widow and orphan, with only personal property, yielding small revenue.

Legal Opinions.

In a very recent case before our Kentucky Court of Appeals one of the attorneys tersely said: "We want tax reform." "We need it badly." "Our car of progress is mired in the morass of a bad system."

Supreme Court of Pennsylvania (Durack's 62, Pa. 494) appeal.

Mr. Justice Sharswood (spoken of in the report of this case as "certainly as strict a constructionist as ever sat on this bench") said, referring to the question as to requiring "all the subjects of taxation to be assessed, and an equal rate laid ad valorem"—"*practically no more unequal system could be contrived.*"

United States Supreme Court, case of Pacific Express Company vs. Seibert (142 U. S. 351), Justice Lamar delivering the opinion, said: "A system which imposes the same tax upon every species of property, irrespective of its nature, condition or class, will be destructive of the principle of uniformity and equality in taxation and of a just adaptation of property to its burdens." Adding, "this Court has repeatedly laid down this doctrine."

XII.

What to Do—Suggestions.

First—Amend the Constitution so as to lodge (as in all former Kentucky Constitutions and *now* in those of other States) fuller authority with the Legislative branch of the State Government to provide ample State Revenue by wise measures fitting changing conditions and action by other States from time to time. Intrusted with Legislation for protection of Life and Property, so let them enact Statutes, and be held responsible, for methods of raising Revenue.

Second—Create a Revenue Commission by the General Assembly, to report to the General Assembly, made up of equal membership from the Senate, the House, and of Citizens experienced and successful in business affairs, appointed by the Governor, to revise our Revenue laws. New York has just appointed such a Commission of 15 members. The late Revenue Commission gave laborious service over two years in discharge of their duty, but they were limited materially, evidently by Constitutional restrictions. It is noteworthy that every member of that Commission in the Senate voted to submit Senator Lancaster's amendment to the Constitution to a vote of the people.

Third—For City Taxation: Appointment in each city, by the City Government, or by local Development Club, of a Committee to obtain information, and recommend to the Municipal Government methods deemed best for their local needs, giving practical local self-government as to local taxation. The important amendment to the State Constitution of November, 1903, provides the way for great improvement. This is the first and only amendment to our Constitution, and was adopted by a majority of 20,000 votes, and should be availed of, by all of our progressive towns. City rates of taxation are higher than State and County combined, therefore this feature is important, and the way is now open for better methods. The authority wisely conferred in the State Constitution upon all cities to exempt new manufacturing enterprises from all municipal taxation for a period of five years should be adopted by all our cities. It is a strong inducement to location of new factories. Their location secured, the State and County immediately derive direct revenue, and the city at once receives benefit of importance in many ways. Employment is given to the people—100 men employed means 300 people provided with a living!

Kentucky offers great advantages for factories—cheap fuel, transportation facilities, reasonable cost of living, etc.—no State better.

The Fifth State Development Convention, which meets in

Winchester this fall, can take up no more important subjects than these, and their action will have great value and influence.

These necessary fundamental steps taken, let there be greater encouragement for the spirit of enterprise and progress in Kentucky.

Organize good citizens in Farmers' Institutes in every County; Development Clubs in every City.

Kentucky's motto: "United We Stand" is good, but to *move forward unitedly* is better.

More industry and thrift and less of "practical politics." Kentucky first and party after. Keep our young men employed at home by better opportunities for success than elsewhere.

Remove the tax barriers now repelling Capital.

Production our watchword, and continually increasing in Agriculture and in Manufacturing.

He is a public benefactor no less who establishes a successful factory than he who makes "two blades of grass grow where one was growing before!"

Ashland and *Paducah* should be great centers for Manufacture of Iron and Steel.

Covington and *Newport* splendid points for use of Cincinnati's capital in Factories.

Lexington, Frankfort and *Winchester*, with abundance of suited timber in that section, should rival Grand Rapids in production of fine Furniture.

Henderson, Owensboro, Bowling Green and *Hopkinsville* can produce cooperage, wagons, buggies and hardwood work in easy competition with Northern points.

Louisville ought to double her Tobacco Manufacturing capacity. She should add half a dozen each great Cotton Mills, Shoe and Clothing Factories, etc., etc.

All over the State there should be Flour Mills, utilizing the grain of near-by territory, and exporting to the rapidly growing Southern States.

Reasonable taxation upon Capital and Manufacturing—these all will come.

With these aims, backed by a widened, general, generous public policy, *Kentucky* will start on a new era of prosperity. We shall see as never before—

Capital coming in, seeking investment.

Agricultural development.

Mining promoted.

Population increase, with profitable employment.

Industries, Manufactories springing up.

Home markets for farm products.

Shipments of our increased Agricultural products, Coal, Oil, Timber, our Manufactures to other States, and much to other Countries. It is this *export* alone from the State which increases her wealth and prosperity, and not our transactions among ourselves—all in united activity providing the ways and means for great

Public Improvements.

Good Roads, Railroad Extension; and, crowning all, the best fruits of true prosperity, the upbuilding of *a higher civilization* and *the best citizenship*—the establishment of more

Good Schools—education and refinement.

Churches—noble charities.

A GREATER COMMONWEALTH!

WILLIAM A. ROBINSON.

Louisville, Kentucky, August 15, 1906.

CONSTITUTION OF KENTUCKY.
(As to revenue for the Commonwealth.)

SECTION 171. The General Assembly shall provide by law an annual tax, which, with other resources, shall be sufficient to defray the estimated *expenses of the Commonwealth* for each fiscal year. Taxes shall be levied and collected for public purposes only. They shall be uniform upon *all property* subject to taxation within the territorial limits of the authority levying the tax, and all taxes shall be levied and collected by general laws.

(And as to County and Municipal):

SECTION 181. The General Assembly shall not impose taxes for the purposes of any county, city, town or other municipal corporation, but may, by general laws, confer on the proper authorities thereof respectively the power to assess and collect such taxes, etc. "

Amended by adding this clause, November, 1903:

"And the *General Assembly may, by general laws only,* authorize cities or towns of ANY class to provide for taxation, for *municipal purposes,* on *personal* property, tangible and intangible, based on income, licenses, or frahchises, in lieu of an ad valorem tax thereon.

CONSTITUTION OF PENNSYLVANIA.

ARTICLE IX.

Taxation and Finance.

SECTION 1. All taxes shall be uniform upon the *same class of subjects,* within the territorial limits of the authority levying the tax, and shall be levied and collected under general laws, etc. . . .

Simple—concise—just.