

UNITED STATES SENATE

Washington, D. C.,
November 24, 1937.

Dear Mr. Roosevelt:

I enclose copy of letter I am sending the President with excerpt from the Record in reference to my resolution for a constitutional amendment exempting homesteads from taxation throughout the country. I also enclose copy of the resolution. I would be glad if you would look into the matter also, and to have your reaction to the idea.

Yours very sincerely,

(sgd.) Morris Sheppard.

Hon. James Roosevelt,
Secretary to the President,
The White House,
Washington, D. C.

Washington, D. C.
November 24, 1937.

Dear Mr. President:

In connection with your most praiseworthy proposal for increased home building throughout the nation, I desire to direct your attention to S. J. Res. 220, proposing an amendment to the federal constitution calling for the exemption of all homesteads throughout the nation to the extent of \$5,000.00 in value, which I introduced in the Senate on November 16. I enclose excerpt from the Record of that date, in which the resolution is set out in full and in which immediately below the resolution is a statement by way of explanation. I also enclose copy of the resolution.

Thirteen states have already made such exemption by constitution or statute. It would give a permanent basis for home building and for security of home ownership. I submit it for your consideration.

Yours very sincerely,

President Franklin D. Roosevelt,
The White House,
Washington, D. C.

There is no question but what such a constitutional amendment would be all right.

It would do no particular good on construction at this time as it would take a long time to get it through and therefore could be of no help in the present situation.

A constitutional amendment providing for such exemption as proposed would eliminate from taxation a very large portion of the present taxable property; some other form of taxation would have to be found to take the place or meet the loss of income, which would create a very difficult problem in view of the present high taxes in effect in almost every state, otherwise the alternative would be for the Government to subsidize the states for their loss in revenue due to exemption. This would, of course, raise a very serious budget question.

In the first place it would have to be in the form of a letter to Sheppard from President Roosevelt and he naturally is not going to come out definitely for anything.

Another suggestion - best: That the President acknowledge and say they are interesting suggestion but ~~hm~~, however, they involve a great many questions such as (etc.) — means a great loss (include figures) in taxes in states, required to meet such loss by some other means; inasmuch as they have high property as well as income and sales tax, it would be difficult to meet it from that source; would be difficult for the Government to meet such loss from the state as that would create a serious budgetary problem for the Government.

*By your
hand J. R. with
Franklin*

THE WHITE HOUSE
WASHINGTON

December 7, 1937

Memorandum For: Governor M. S. Eccles
Federal Reserve System

Dear Governor Eccles:

On my return to the office today
I found this letter from Senator Sheppard.
Would you look it over and let me have some
suggestion to send along to him, if you
think that is what I should do in the matter.

With my best wishes to you,

Very sincerely,

James Roosevelt
James Roosevelt
Secretary to the President

December 22, 1937.

Honorable James Roosevelt
Secretary to the President
The White House
Washington, D. C.

My dear Mr. Roosevelt:

In accordance with your recent note, I have looked over the resolution by Senator Sheppard proposing a constitutional amendment to exempt from taxation all homesteads up to a value of \$5,000. I have also had prepared on the subject a memorandum that, though by no means exhaustive, does raise certain points apparently worth consideration. I inclose a copy of this memorandum. Perhaps it will be useful as a basis for your own comments or perhaps Senator Sheppard would be interested.

With my best wishes,

Very sincerely,

M. S. Eccles
Chairman

Inc.

MHB/nb

FILE COPY

December 20, 1937.

I. The movement to exempt from property taxation owner-occupied homesteads in the various states has emphasized, as does Senator Sheppard, the great desirability of substituting freehold ownership of homes for tenant occupancy. In drafting these notes, the writer would like to say, first of all, that he is profoundly sympathetic to that point of view and believes that Senator Sheppard and others who are interested in the question are dealing with one of the most fundamental problems of American social and economic structure.

II. Presumably, an owner occupancy exemption is designed to apply tax pressure in favor of homestead ownership and to assist the lower income groups in acquiring home ownership. Regardless of the other questions involved, an exemption of \$5,000 is probably too high for such a purpose.

The census of 1930, based on the very high values of 1929, shows a median figure of approximately \$3,750 for nonfarm owned and rented houses. The present value, of course, is lower than that amount; and, in addition, the average capital value of housing units occupied, say by the lower 50 percent of the income-receiving groups in the United States would be well below the figure cited. Moreover, a \$5,000 exemption, if based on assessed values, would in fact be an exemption considerably in excess of \$5,000. Such a conclusion follows from the fact that, except in periods of severe depression when property values have been greatly reduced, assessed values on the average are considerably less than the sale value.

All in all, an assessed-value exemption as high as \$5,000 is probably double the amount that could be most convincingly argued for. That would seem to be especially true of the Southern states, where average values are exceedingly low. Among the results of placing the exemption so high would be the fact that those in the upper income groups would individually secure a much greater benefit from the exemption than those in the lower groups. For instance, assuming a tax rate of \$30 to \$1,000, a man able to live in a \$5,000 house would secure a tax benefit of \$150 a year, whereas a person able to live in a \$2,000 house would secure a tax benefit of only \$60. That factor would be coupled with the additional circumstance that there seems little reason to grant \$5,000 of exemption to a man able to afford, say, a \$50,000 residence.

III. There are a great many people who must rent for valid reasons. Some of them are only temporarily located at various places because of the character of their businesses, professions, trades, or the labor market; a great bulk of them are in such a poor income situation that no method we have yet discovered in the United States will permit home ownership. Often their chief asset is their mobility. Moreover, in the cities of the country, the larger group of people must necessarily live

in multiple-unit establishments, such as apartment houses, and we have not yet generally developed methods by which these people own their dwelling units.

Exemption of owner-occupied homesteads would thus have an unsatisfactory feature in that those able to own would be exempt, while those in rented places would not be exempt. Since, in the long run at least, investments in rental real estate will have to pay a return equal to other investment opportunities of equal risk, the tax levies on rental properties will be included in rents. It seems, therefore, that an exemption would in considerable measure assist the relatively better placed — those able to undertake the ownership of homes — and to create a differential disadvantage for those often less well placed, who must perforce occupy rented property.

IV. In nearly all the States where a substantial homestead exemption has been in operation for any length of time, substitute revenues of the consumption-tax variety have been necessitated. Doubtless there are kinds of selective sales taxes that could properly be urged as a desirable substitute for property taxes; but, in so far as general consumption taxes are concerned, they fall most heavily on those classes that must spend all or nearly all of their income for taxed necessities. A substitution of a general consumption tax for the property tax would in large measure be simply a shifting of the tax burden from the shoulders of those who are at least able to undertake the ownership of property to the shoulders of those who are even less able to bear it than property owners. This factor, coupled with the previously noticed disadvantage to renters, would apparently create a severely regressive treatment of the low-income groups.

(1) The resolution intended for Senate consideration apparently exempts \$5,000 of each homestead from all taxes, state and local, except levies for the service of prior bonded debt. Without arguing the case either way, it is nevertheless to be observed that such a provision, if enforced, would compel revolutionary changes in the governmental structure of many states. The inability of localities to discover alternative revenues, would entail state grants in aid or the assumption of local functions by the state governments. It would also be very likely to enforce quite quickly a different relation between the Federal and State Governments because the ability of the states to uncover revenues alternative to property taxes differs materially; and it would be logical to expect a rapid development of Federal grants in aid to the states. It may also be noted that a good many localities, aside from a bonded debt, have a substantial floating debt. The task of taking care of such a debt on the basis of the reduced revenues implied by the present resolution would be great if not impossible in many instances.

V. In the long run, a tax exemption would have a certain influence in causing an increased supply of improvements in or on land. So far as land itself is concerned, a tax exemption that increased the demand would simply result in bidding up the price, since the supply of land will be fixed. To the extent that real estate values were thus increased by an increase of land values, the States would be simply sacrificing their revenue in order to provide a bonus (by way of increased prices) to the present owners of land. Future purchasers, so far as land values are concerned, would be in no better position, because they would be under the necessity of paying a higher price represented by the capitalization of the tax remission. This would be a particularly important consideration in the South, where so much of the landed property of any economic importance is owned outside the State.

In the stimulation of housing, something close to the foregoing phenomenon concerning land is also true. The increase in housing proportionate to the total supply of housing can only take place with comparative slowness. Even so far as improvements on land are concerned, therefore, a homestead exemption simply results in a bonus to present owners.