TAX FACTS

Published in the interest of SOUND ECONOMICS and AMERICAN IDEALS

VOL. II LOS ANGELES, CAL., DECEMBER, 1923 No. 8

President Coolidge on Tax Reduction

High taxes reach everywhere and burden everybody. They bear most heavily upon the poor. They diminish industry and commerce. They make agriculture unprofitable. They increase the rates on transportation. They are a charge on every necessity of life. Of all services which the Congress can render to the country I have no hesitation in declaring this one to be paramount.—President Coolidge.

A great many people will welcome this plain statement of what they have long felt. Few conclusions, indeed, will be more generally accepted. But upon closer examination there are likely to be doubts in the minds of some, as to the efficacy of the President's proposals for relief.

Economy and efficiency is promised that will call for less revenue. Taxation is to be reduced: (1) by taxing earned incomes at a lower rate than unearned incomes; (2) by a heavy reduction in the rates on large incomes, (3) by repealing the "nuisance" taxes. The President also favors a constitutional amendment prohibiting the issuance of tax-exempt securities.

There appears to be some confusion regarding the nature of tax-exempt securities. Credit has its price like other things. Anyone wishing to borrow money must pay that price. If the ruling rate of interest is five per cent, and the community taxes the holders of bonds two per cent, the bond will have to bear seven per cent in order to sell at par. If securities are not taxed, the same bond bearing five per cent will sell at par. Hence, whatever tax the government lays upon the bond it must add to the interest rate it pays on the bond.

President Coolidge would forbid tax-exempt securities in order to put private and public loans on an equality. It would be easier to secure equality by exempting all bonds. Since the borrower must pay the full value of the loan, plus taxes and interest, the taxing of securities increases the cost of credit, and handicaps business.

Heavy reductions in rates on very large incomes will scarcely meet with general approval under present conditions. Repealing nuisance taxes will remove much vexation, with small loss of revenue. The distinction between earned and unearned incomes is sound, and is one that tax reformers have contended for from the first.

It is to be regretted that President Coolidge, having adopted one contention of the tax reformers, could not see his way to accepting the remainder of their Congressional program. The four bills introduced by Congressman Keller of Minnesota, propose: (1) the repeal of the nuisance taxes; (2) the reduction of the rate on earned incomes to one-half the rate on unearned incomes; (3) a moderate increase in the rates on inheritances; (4) a tax of one per cent on the privilege of owning land and other natural resources valued in excess of $10,000 after deducting all improvements.

The Keller bills are backed by the best informed tax experts, and by the Manufacturers and Merchants Federal Tax League, an organization of thousands of business men in all parts of the country. It is much to be regretted that the President and Members of Congress could not have attended the Tax Relief Convention held in Chicago, under the auspices of this league of practical-minded men.

President Coolidge endorses Secretary Mellon's report, which says:

> The burden of all taxes rests only in part upon the individual or property taxed. It is borne by the ultimate consumer. High taxation means a high price level and high cost of living.

It is to meet this very point that the Keller bill aims. All economists of standing agree that taxes on land values, that is, the value of land without the improvements, cannot be shifted, but must be paid by the owners of the land. Here, then, is an opportunity, by means of this one per cent tax on the privilege of holding lands and other natural resources in excess of $10,000, of raising one billion dollars, without putting one cent on business. By providing one billion dollars in revenue without adding to the burdens of industry Congress will be able to take that amount from the burden that business now bears.

The bill does more. By taxing large holdings of lands and natural resources that are held idle for speculative purposes, it will tend to force these holdings upon the market, thereby lowering the price to labor and capital. With the removal of a billion dollars in taxes on business, and the forcing of speculative holdings into use there will follow a healthy stimulation of industry, and a material reduction in the cost of living.

Land values are increasing so fast in the United States that they practically doubled from 1900 to 1910, and doubled again from 1910 to 1920. But though many of these holdings may have doubled since the income tax law was enacted, the increase does not appear as income till the land is sold. If the holders wait till the President and Secretary Mellon reduce the rates—or possibly abolish them—they will have profited by the full amount of the unearned increment, while the business man and the consumer have borne the burden of the war tax.

President Coolidge's statement that "high taxes reach everywhere and burden everybody," is axiomatic in form, but it lacks the substance of truth. High taxes on business do reach everywhere and burden everybody, but high taxes on vacant land stay right there, and burden only the speculators who hold it.

To reduce taxes on business without increasing the tax on land values will send the price of land skyward; and ultimately the gain from tax-free business will be absorbed by land speculators. The President has been guilty of a sad oversight in not commending the Keller bills.

A SAD CASE

Ordinarily the American tiller of the soil runs true to form. He can be depended upon to work early and late, to see that his family works early and late, and to use all diligence to see that those who profit by his labor are not disappointed. But now and again there appears to be a giving way of the rural morale.

The Los Angeles *Times*, ever on the watch to detect these lapses, and pillory the lapsees, notes a flagrant case in Imperial Valley, California. This ancient sea bed has been converted into tropical garden through the daring, endurance and industry of men and women who have devoted their lives to this undertaking.

But like all similar projects, no sooner was it known that the sea bottom could be made productive than the land speculator swooped down upon it. Thus, while the land yielded bountiful crops for those who toiled, it also yielded abundant fortunes to those who held their lands and waited.

The *Times* notes, however, that those who toil are not quite so patient as those who wait. In a recent editorial of more than a column in length that staunch guardian of the privileges of those who wait, says:

> Followers of Imperial Valley affairs have learned of a recent move whereby the directorate of Imperial Irrigation District have created a tax with the frank purpose of increasing the contribution of the nonresident, particularly the man who has purchased land for speculation and not for farming. The plan imposes a blanket tax which is admittedly more than the necessities and then allows certain credits to the water user to be taken up as he uses the water. By its operation a great body of people away from Imperial Valley who could be relied upon to interest new settlers in the valley have been made resentful, and their friendly self-interest has been turned into activity enmity.

Such base ingratitude on the part of the residents of Imperial Valley! If this disregard of a time-honored custom is to be permitted, there is no knowing where it may end. If the speculators in Imperial Valley lands are to be saddled with the upkeep of the irrigation system that makes cultivation possible—with a rebate to those who till the lands—what is to prevent the people of a city from saddling the building and upkeep of the water system upon the owners of lots, with a rebate to those who use water. And if water, why not gas and light and other community services? Perish the thought.

Let the *Times* look to its charge. Unless the speculators in Imperial Valley lands are protected in their privilege of reaping fortunes from the industry of the residents who till the lands, the whole structure of special privilege may go by the board. It was through the tiny hole made by crawfish that the seas breached the dikes of Holland. Who knows but that the Imperial Valley experiment may sweep over the State and Nation.

THE EFFECT OF A GOOD EXAMPLE

The delightful letter of James H. Barry, printed in November TAX FACTS, was the means of prompting four other persons tö whom occasional copies had been sent, to subscribe. And they, like Mr. Barry, remembered what Mr. Post said—that reform papers, like grand opera, have to be supported by the people who believe in them—sent more than the subscription price. Charles T. Root, of New York, expressed the thought of all, when he wrote: "Your paragraph about Barry pricks my conscience. So here is my 1924 subscription to TAX FACTS. Wish the little paper had a million circulation." Perhaps it will, if the con- ... old out.

HOW LIKE LOS ANGELES!

More smokestacks mean more people, says the Stockton *Forum*. That means that we shall have more merchants here competing for trade. It means we must have more houses. That means more contractors bidding for business.

Merchants, contractors, professional men, and all grades of rooming and apartment house operators will flock in here, and outside money will be sent here to be loaned.

That will force merchants, contractors and houselords and money-lenders to operate on narrow margins.

But—there is no outside supply to relieve the rent market!

No more land can be brought in here to break the monopoly our landlords have, and to prevent their taking their pound of flesh.

In the local "give and take," those who furnish the brain and brawn and money that make the city must do all the giving, and those who hold the gates of opportunity will do the taking.

LAND AND TAXATION

... lon there are 8,000 acres of valuable land lying undeveloped and rated as "agricultural land." These acres command fancy prices in the market. All told they pay less than $15,000 a year to the rates (local taxes). The rest of London pays more than $75,000,000 a year in rates. Is it any wonder there is a house famine, and that rents are high?

An average family pays $3.50 a week in indirect taxation. The owner of vacant land (no matter how valuable it is) pays no rates in respect of it. Is this fair? The taxation of land values is in the program of both Labor and Liberal parties, and speakers at by-elections are advocating this reform.

What does the taxation of land values mean? It means that those who hold the land should pay taxation based in each case on the true market value of the land, whether it is used or not. It means that all dwellings, shops and other improvements would be free from rates and taxes. It means real free trade. It means an end to land speculation. It would promote industry and raise wages. It would encourage everywhere the best use of land, which is the only way to solve the unemployment problem.—*The United Committee for the Taxation of Land Value, London.*

TRIFLING WITH LIBERTY

During war times many rules of civil government are ignored, and a certain class of citizens and officials are disposed to continue these practices on into peace times. A striking instance of this was the deportations delirium immediately following the war.

Whatever excuses may be offered for the suspension of civil liberties in war time, they do not apply in time of peace. It is therefore of the utmost importanc that all tendncies in this dirction be stamped out as rapidly as they appear, lest irreparable harm be done.

"The Deportations Delirium of Nineteen-Twenty," by Louis F. Post, (published by Charles H. Kerr & Co., Chicago, price $1.50) is a timely book on this subject. Mr. Post, author of many important books on government and economics, was Assistant Secretary of Labor from 1913 to 1921, which brought him into personal touch with all the deportation proceedings. This intimate personal knowledge of the subject on the part of the author, coupled with a firm grasp of the fundamental principles of democracy, make a reading of this book of the utmost importance to those who would understand the spiritual letting down that marked the reaction after the exalted ideals of the war.

NOTES

An educated person is a man who can read a newspaper without being humbugged by it.—*St. John Irvine.*

"Every permanent improvement, . . . every betterment, . . . every facility given to production, . . . raises rent.—*Thorold Rogers.*

When a republic is new the man who clamors for liberty is a patriot. But in after years the man who talks of liberty is a dangerous radical—*Passaic News.*

Americans of former days robbed the Crow Indians of their lands. The "Escrow Indians," according to Will Rogers, are robbing the present day Americans.

Ninety per cent of the cost of such functions as fire protection and sanitation should be charged to old buildings, which are fire traps and pest holes—for modern buildings need very little fire service and no sanitary service.—*James R. Brown.*

An indulgent owner in Youngstown, Ohio, keeps his old horse on a five acre lot valued at $200,000, and says he will not sell till old Bill dies. If that vacant land were taxed at its rental value how long would it take that owner to find cheaper pasturage, and put the lot to its proper use?

A study of the union scale of wages and hours of labor in the United States shows that on May 15, 1923, the hourly union wage rate was higher in the United States than in any other year, being 9 per cent higher than on the same date in 1922, 84 per cent higher than in 1917, and 111 per cent higher than in 1913.—*U. S. Department of Labor.*

Louis F. Post says that reform papers, like grand opera, must be supported by those who believe in their mission. Here is an opportunity to back TAX FACTS. A word to the wise is sufficient.

TAX FACTS

Published Monthly
at 420 American Bank Building,
Los Angeles, Cal.,

EDITOR..STOUGHTON COOLEY

Subscription per year 50 cents

Vol. II Los Angeles, Cal., December, 1923. No. 8

WHY COAL PRICES GO UP

There is food for thought in the recent report of the United States Coal Commission. This document is the result of what appears to have been an earnest effort to get at the bottom of the coal situation. The Commission tried to find just why it is that with such a bountiful supply of coal, with all kinds of labor-saving devices for taking it from the ground and transporting it to the consumer, the miner lives amid privation, and the consumer pays ever-increasing prices.

It must be conceded by fair-minded men that the miner is entitled at least to decent living conditions and fair wages, that the operators should have a reasonable return on their capital, and that the railroads are entitled to a fair rate for hauling. The same may be said of the returns to jobbers and retailers. But these items do not account for the present price of coal.

The Commission found that in addition to the two factors, labor and capital, there is a third factor, monopoly, or land. It found that while the first two factors, labor and capital, receive little more than formerly, the share of the third factor, land, has grown to enormous proportions. Says the report:

> The amount of the increment in the value of coal lands is a matter deserving careful consideration, not only with respect to anthracite, but with respect to bituminous coal. If this increase is to continue indefinitely piling up carrying charges to be added to current prices, an intolerable burden will be laid on the consumer. Speculation in land should not be confused with mining coal.

To appreciate just what the Commission means by this ever-swelling "increment in the value of coal lands," consider the case of the Lehigh Coal and Navigation Company. This company owns 8,940 acres of coal lands that were acquired at a total cost of $1,412,000. Just why this land should have cost the company that sum when nature produced the coal for nothing, does not appear. But the Commission does explain the subsequent steps.

Starting with an actual investment of $1,412,000, the company in 1871, re-valued the coal lands on its books by adding $4,970,000 to the original cost. Thereafter, profits were figured on a capitalization of $6,382,000, instead of $1,412,000. The accompanying advance in the price of coal to the consumer had nothing to do with wages, or with interest on the actual capital invested.

As population grew, and more coal was needed, the Lehigh Coal and Navigation Company made another re-valuation on their books in 1917, by adding $10,060,000, making a total of $16,442,000. Deducting from this amount, depletion of the supply of coal, $3,685,000, leaves a present capitalization of $12,757,000.

Manifestly, if the Lehigh company is to receive the same rate of profit on $12,757,000 that it did on its original investment of $1,412,000, it must charge the consumer more for coal. As population continues to increase, and the demand for coal grows, the "increment in the value of coal lands" will warrant still other increases in the book value, and corresponding advances in the price of coal to pay dividends on this book value.

If this were all, it might be dismissed as unpleasant, but not serious. It is far from all. What is true of the "writing up" of the values of coal lands, is true of all other mineral lands, forest lands, and water power. Not only is it true of these natural resources, but it is true of the social resources that attach to lots in the heart of cities, where the "increment in value" is being "written up" from year to year.

Labor can go on accusing capital of greediness, and capital can denounce labor as Bolshevistic, but that gets us nowhere. While labor and capital quarrel, monopoly bleeds them both, and prices to the consumer go up. When labor stops reviling the man who builds a house, or starts a factory—thereby employing labor and producing wealth—and gives its attention to the monopolist who speculates in land—neither employing labor nor producing wealth—we may expect changes in our laws that will shift taxes from those who produce wealth and employ labor to those who merely speculate in the material out of which wealth is produced, and upon which labor is employed.