

TAX FACTS

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Who Are The Real Profiteers?

Illuminating interview with big dealer in building materials. Successful merchant who understands economic law as well as local conditions, explains why the public complains of the price of labor and materials, and overlooks the real culprit. Why newspapers are as they are. Facts that are worth the thoughtful consideration of every citizen whose livelihood depends upon the city's expansion, and the building of homes and factories.

"Our newspapers," said David Woodhead, well known building materials dealer, and president of the Woodhead Lumber Company, "are to blame for the opinion that labor and materials men are responsible for the high cost of building.

"No newspaper can pay its way without advertising. All depend upon the big advertisers for their main revenue. We should not, therefore, expect them to commit suicide by printing news or opinions distasteful to, or against the financial interests of their largest advertisers.

"Real estate men are by long odds the biggest advertisers. No newspaper, therefore, no matter how much it might be convinced that excessive land speculation will lead to a stoppage of our growth and interruption of our building campaign, can afford forcefully to present this fact to its readers in its true light.

"Artisans working for wages do not advertise at all. Building material merchants advertise very little in comparison with these real estate men. This must be the main reason, if not the only one, why newspapers in editorials and in news paragraphs, as well as in cartoons, lose no opportunity to hold up to public scorn and condemnation any rise in the cost of labor or building material, and declare such prices are checking building operations. Yet they fail to mention by a single word the greatest of all increases in the cost of homes and factories and stores caused by the rapidly increasing cost of land.

"Labor profiteers and building-materials profiteers may be safely condemned hundreds of times by the average newspaper without losing patronage; but to mention the giant among pigmies in the ancient art of profiteering would be dangerous. And so the lot profiteer does not exist, so far as our newspapers are concerned.

"Let me give you a single illustration of the difference between the cost of a small, modest, working man's home of today, and three years ago. Three years ago a lot such as he would require in the south end of the town could be bought for \$500. The average home built on such a lot would cost, say, \$2,500. About \$600 of this \$2,500 would be for direct labor, and \$1,900 for materials. The cost of the home with the lot, therefore, would be \$3,000.

"Today he must pay not less than \$1,500 for the same lot, in fact \$2,000 would be more nearly correct. The same home, therefore, assuming the cost of building to be the same as it was three years ago, would be \$4,000, instead of \$3,000.

"Do you realize that if it were not for the lot profiteer, that if lots could be secured at the same price as three years ago, all of the workmen could be paid twice the wages they were paid—which would add \$600 to the labor bill; and 20 per cent additional profit could be paid to the building material man—making an increase of \$380, or a total increase of \$980, and the owner would still have \$20 left from a completed home that would have cost no more than he must pay because of the lot profiteer.

"Mind you, I am not advocating higher wages or higher profits—building costs are high enough, and too high; I am only pointing out where the chief increase in cost lies. I would also call attention to this fact: labor produces buildings, material men produce materials from which buildings are made; what does the lot speculator produce?"

Land Speculation Fatal

"This is the menace to our social and industrial progress. It is the disease that will finally kill our prosperity. This enormous increase in speculative land values that must be paid in the end by wealth producers—by which I mean workmen, merchants, and manufacturers—not only affects the cost of our homes, but it affects the capital cost of our factories and our stores. It adds enormously to the rent merchants pay, increases their selling prices, and to an undreamed of degree enters into the high cost of living, as well as the high cost of building.

"Lot profiteers, who employ no labor and produce no wealth, are reaping fortunes. These fortunes are almost wholly unearned, and must come out of the productive activities of our people, either directly out of wages and the profits of capital, or indirectly out of high prices to the consumer.

"We are having an amazing industrial expansion; but our land speculators are running ahead of it so fast that disaster is much closer than most of our people realize.

"If we had the good sense to realize that the heavy burden of taxation that now falls on industry, and that ultimately adds to price to be paid by the consumer, were transferred to the lot speculator by increasing the tax on the value of his lot, it would not be so easy for him to pyramid prices so out of proportion to the real value."

TAXATION AND THE POOR

Editor, Tax Facts:

Your proposal to exempt industry from taxation, and increase the tax on land values, sounds good to me. I am disposed to give it a trial, if, as you say, it is done gradually so as not to turn everything topsy-turvy. But there is one point that bothers me. Where buildings are worth much less than the land on which they stand, shifting the tax from building to land would make the

owner's tax higher than before. This would tend to raise rents, and make harder the lot of the poor renter, and the small home owner. What is the answer?

WM. T. EDGEWATER.

San Francisco, Calif.

This is a fair question, and calls for a frank answer. Justice to all the members of society demands that land values, which are due to and created by society, should be taken to defray the cost of government. In the first place, a poor man does not own valuable land, else he would not be poor. Rich owners of land can take care of themselves. Only in very rare instances does the small home occupy land as valuable as the building. And if by chance the new tax was a trifle higher on the lot than the old tax on the house and lot, the total amount would be very small compared with the advantages due to increased business.

If instead of small homes we consider the owners of old tenements on valuable city lots, where a ten thousand dollar building stands on a hundred thousand dollar lot, Mr. Edgewater's question would be pertinent. In that case shifting the tax from the building to the land value would materially increase the owner's tax. That is the intention. But the owner would recoup himself, not by raising the rent on the poor tenants in his old rookery, but by putting up the best building required in his locality. Other owners of rookeries on valuable lots, as well as the owners of vacant lots, would also be taxed the same as though they were fully improved, they, too, would erect new buildings as long as there were people to occupy them. And rents do not go up when buildings are looking for tenants.

It may be said, therefore, that the small home owner and small farmer would pay less taxes than at present; and city tenants would have lower rents. But this would be a very small part of the advantages to be derived from the new system. Removing taxes from industry will lower prices, just as the removal of the sales tax did. Increasing taxes on unused valuable lands would force them into the market and lower the price of land and raw material, which would still further cheapen goods and increase employment. In other words, by cutting off the economic deadheads, or holders of legal privilege, more will remain to be divided between labor and capital. Mr. Edgewater can rest assured that shifting taxes from industry to land values will benefit the poor and the industrious.

TAX RELIEF CONFERENCE

The Manufacturers and Merchants Federal Tax League, (1346 Altgeld Street, Chicago), has sent out a call for the Second Biennial Tax Relief Convention, to be held in Chicago, November 9 and 10, 1923.

The Manufacturers and Merchants Federal Tax League is one of the sanest, soundest and most practical of all the agencies in this country working for a rational system of taxation. Representing over 35,000 business firms, the Federal Tax League is conducting a campaign for four bills in Congress: (1) To repeal sales taxes, and taxes on incomes of corporations. (2) To separate earned from unearned incomes. The latter to be taxed as at present; the former to be cut in two. (3) To increase the inheritance tax on large fortunes. (4) To levy a Federal tax of one per cent on the privilege of holding lands and natural resources worth over \$10,000, after deducting the value of all buildings, personal property and improvements.

This program will relieve producing business of about \$1,250,000,000 annually, and the people of from three to five times that amount in inflated living costs.

A conference held under the auspices of this organization will be productive of much good. It should have a large attendance of men and women who understand the problem.

HARM FROM WRONG METHODS

Reason and experience tell us that right methods are second only to sound principles. The nearer the social reformer comes to the evolutionary process of modifying present institutions, instead of attempting to sweep away the old to make way for the new, the more rapid will be his progress.

Persons who have labored patiently along rational lines in behalf of a progressive movement, only to see it set back indefinitely by a wave of reaction, will appreciate W. J. Ghent's new book, "The Reds Bring Reaction," published by the Princeton Press, Princeton, N. J.

The author, in a charming historical narrative, has shown how time after time worthy causes have met with defeat, because the intemperate words and actions of ultra radicals frightened the mass of the people, until they took refuge in the arms of the reactionaries. The book will broaden and deepen the understanding of the political and social reformer, and give him a better insight into human nature.

OBSERVE THE LAW

The laws of California require assessors to assess property at its fair cash value. It is notorious that the assessors flout this law. Underassessments are universal, especially on land, and particularly on vacant lots and large unimproved estates.

The value of land is the capitalized rent the owner can retain. The more rent taken as a tax, the less rent remains to be capitalized into selling price. For every dollar in rent the owner keeps he can add \$20 to the selling price. Hence, for every dollar in taxes he escapes through low assessments he adds twenty dollars to the price the user must pay.

Low assessments of land, therefore, not only cheat the government of its revenue, but they add to the burdens of business, and encourage speculation. If vacant land paid just taxes we might exempt personal property, thus cheapening all products, and still having more revenue. Is there no way to make assessors obey the law?

Chas. F. Hunt.

NOTES

The British Labor Party favors the taxation of land values in order, as Philip Snowden says, "to secure to the community at large the socially created wealth now largely diverted to private pockets."

A State-wide movement for public ownership and operation of the hydroelectric resources of the State of Washington is announced by Oliver T. Erickson, chairman of the city utilities committee of the Seattle city council.

Senator Smoot, chairman of the Senate Finance Committee, and one of the best posted men on public affairs, in a recent speech said: "Never again in the lives of those present will the annual Government expenditures be less than three billion dollars."

Failure of the legislature to re-apportion the State leaves 400,000 people in Southern California without representation at Sacramento. In the face of this fact will the reactionaries, acting in the name of the People's Anti-Single Tax League, have the timidity to propose another amendment to the Constitution limiting the Initiative?

"A shoemaker makes shoes," says Uncle Cy, "and a miller makes flour; the baker makes bread, and us farmers make crops, but what in Samhill does a land speculator make? If there weren't any shoemakers there wouldn't be any shoes; if there weren't any owners of vacant land there wouldn't be any land—say, how 'bout that, you city fellers that do the thinking fer us farmers?"

The loudest crying need of this country is a more general knowledge of sound principles of taxation. TAX FACTS is devoted to this purpose. But its circulation is limited by its modest means. If you believe in its mission, subscribe. If you are already a subscriber, have it sent to those well-meaning friends of yours who would gladly take the right stand if they knew what it was. Every dollar extends the circulation; circulation begets enlightenment; enlightenment leads to wise laws. No one can read TAX FACTS, whether he agrees with it or not, without having a better understanding of taxation.

President Gary, of the Steel Trust, says his corporation will change from a twelve-hour to an eight-hour day when there is sufficient labor available. J. F. Welborn, president of the Colorado Fuel & Iron Company, which changed from the twelve-hour to the eight-hour shift on November 1, 1918, says: "The trend of production per man hour, with unimportant exceptions, has been upward since the adoption of the eight-hour day. . . . Comparing these results of the last few months with periods of similar production when basic rates were 10 per cent lower than current rates and the working time twelve hours per day, we find that almost without exception our labor cost per ton is lower than in the earlier periods."

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A GRIM JOKE

A ghastly bit of irony was perpetrated by the Department of the Interior when it announced the opening of 30,000 acres of southern California land to homesteading. The men in charge of the local land office speak of it as mountain and desert land, without water, save for possible wells, and they warn homesteaders to see the land before filing claims.

Thirty thousand acres of mountain and desert land for homesteading, with a ninety day option for ex-service men! The California Committee on Immigration and Housing, investigating conditions in the eight southern counties of the State in 1919, found 2,295,140 acres of "land in farms" in 250 holdings. There were 32 holdings each of more than 15,000 acres; seven exceeded 50,000 acres; one holding had 101,000 acres, and one had 183,399.

Thirty thousand acres of land without water for homesteading, with a ninety day option for ex-service men! The United States Food Commission, in 1917, estimated that 62,571 acres of available farm land were lying idle in San Diego County, and 64,763 acres were under cultivation. An inquiry into the agricultural use of the lands in Los Angeles County was made in the same year for the County Council of Defense that showed 665,294 acres under cultivation, and 645,050 acres unplowed.

Thirty thousand acres of undesirable land for homesteading, with first choice for ex-service men! And 183,399 acres in one ranch, with more than half a million acres of unplowed land in one county. A grim joke, indeed.

The published findings of the Commonwealth Club of San Francisco, after investigating farm tenancy in California, state as one of the chief causes of tenants the unwillingness of holders of large estates to sell to small farmers, and the exorbitant prices asked where land was sold.

The Constitution of California, Art. 17, Sec. 2, says: "The holding of large tracts of land, uncultivated and unimproved, by individuals and corporations, is against the public interest, and should be discouraged by all means not inconsistent with the rights of property."

President Harding, when Senator, said:

Every thoughtful man realizes that the proper distribution of land is the very basis of national well-being. The land should, as far as possible, be in possession and ownership of the men who work it. The drift of the people to the cities, the drift of farms into operation by tenant farmers and into ownership in large acreage by absent landlords has been recognized as a dangerous tendency of the times. Vast quantities of good farming land near the best markets in the world are not cultivated. In all, five hundred million acres (500,000,000) or thereabouts are lying idle [in the United States]. In the meantime, the cities are full of people whose greatest ambition is to own a piece of this waste land and convert it into productive homes.

The Commission on Immigration and Housing, considering the large California estates, says:

Much of the land in these great holdings is not for sale under any conditions; some of it is for sale in tracts of a size which renders it wholly inaccessible to the man of small means wishing to make productive use of it, and most of what is for sale is held at prices which prudence forbids the prospective cultivator to pay. With other commodities a sluggish market and poor demand bring reduction of prices. But land in large holdings is owned by men who can afford to wait; who know that sooner or later the pressure of population upon the means of subsistence will force the purchase of their lands at their own prices.

With the Central Pacific Railway holding 664,830 acres in Siskiyou county alone; with the Southern Pacific holding 642,246 acres in San Bernardino county, and the Miller and Lux estate controlling 700,000 acres in California, the United States Government opens 30,000 acres of mountain and desert lands to homesteading, with a ninety day option for the ex-service men.

What a situation! Alice in Wonderland saw nothing to equal it.

Is nothing to be done about it? Are we to go on this way indefinitely? Is it to be a drifting policy nationally, as it has been internationally? What is to happen when even the mountain and desert land gives out? Are homeseekers to be left to the tender mercies of the owners of large estates who are waiting till the pressure of population forces people to pay their price? New Zealand broke up her large landed estates by a graduated land tax. Does that mean anything to Americans?