

TAX FACTS

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Debts and Taxes

The latest bulletin of the Department of Commerce shows that the per capita debt of California was \$20.93 for 1922, \$12.92 for 1918, and \$8.89 for 1915. What will it be in 1930? In 1950? Is this debt-creating policy good public economy? Is it fair to the coming generation? Do our law-makers appreciate the situation?

Much ado is made in some quarters over what appears to be a rapid increase in public debts, and a corresponding growth of taxes. Statistics are marshalled to prove the shameless expenditure of public money that must lead inevitably to disaster.

The recent report of the National Industrial Conference Board lends point to the situation. The national tax bill last year, according to this report, was \$7,061,000,000. It was \$8,363,000,000 in 1921; \$2,194,000,000 in 1913; and \$1,382,000,000 in 1903. But while the Federal taxes collected last year show a decline of \$1,526,000,000 as compared with 1921, State and local taxes rose enough to more than overcome the gain. State taxes rose from \$307,000,000 in 1913, to \$846,000,000 in 1922; while local taxes increased from \$1,219,000,000 in 1913, to \$3,301,000,000. Or stated in personal terms, the per capita tax was \$64.63 in 1922, and \$17.07 in 1913.

Such a showing may well give the people pause. If taken at their face value these figures indicate an alarming disregard for thrift and frugality. Various reasons are given for this debauching of public credit, post-war extravagance, financial graft, tax-exempt bonds, and so forth.

But are these figures to be taken at their face? May there not be a legitimate reason for the increase? Is it not possible that changed economic conditions may lead to different means of obtaining results?

After making allowance for the decreased purchasing power of the dollar, the per capita increase in wealth, and the growing

complexity of society, there is a change in conditions that should be taken into account. Many social functions, such as schools, highways, bridges, once supported by private means, have become public charges. Of more recent date there has been a transfer of the function of supplying water, gas, electricity, from private public agencies.

It must be apparent that when another political unit issues bonds over water works from a private company there will appear an increase in indebtedness, and possibly a rise in the rate. But while the public burden on the citizen has been increased his private burden is correspondingly decreased.

To illustrate. San Francisco is now owned by a private water company, L. C. ... by public service. In the former city the charge per thousand cubic feet is \$3.58, in the latter, \$1.00. So far as taxes and public debt go, San Francisco makes the better showing; but from the consumer's point of view, Los Angeles has the advantage. When San Francisco has completed the vast undertaking of bringing water to the city from the Hetch Hetchy she will have increased her indebtedness enormously, but the burden upon the individual citizen will be less than at present.

This principle holds good in all public utilities that have been transferred from private to public hands. When Los Angeles added its hydro-electric system to the water system it increased the public indebtedness \$23,500,000, but it lessened the

burden on the citizens. Twelve million of the twenty-three and a half million bond issue went to a private company for the surrender of its plant to the city. The citizens supported that bond issue when put out by the private company as they did when put out by the city.

Not only was the burden of the citizens no greater when the city issued these bonds, but it was considerably less, because of the lower rate of interest at which municipal bonds can be floated as compared with private companies, and the fact that no profit is added to the charges of the public service.

That there was a decided gain to the citizens from this transfer of service from a private company to the city is evident from the lower rates. The city reduced the prevailing rates when it entered the field. The private company met these rates wherever the city lines went, but outside of the city's field it maintains higher rates. The difference between what citizens of Los Angeles paid last year for water, light and power, and what they would have paid at the rate charged by the privately owned companies in San Francisco, more than equaled the total municipal taxes for 1922.

It is clear, therefore, that the mere statement of the amount of public indebtedness or the rate of taxation conveys no real idea of the bearing on the citizen. If San Francisco is as fortunate in its Hetch Hetchy venture as Los Angeles was with its Owens River Aqueduct it will give its citizens very much lower water and light rates, though it will at the same time add to the city's indebtedness.

The real point to be considered is not whether the per capita indebtedness is increasing or decreasing, or whether taxes are higher or lower, but what the citizen is getting for his money. The question that should be uppermost in the mind of the statesman is: Does the man who receives the benefits of public service pay for that service?

Few statesmen, however, have given sufficient study to the question of taxation to get down to fundamental principles. They have not grasped the fact that the same government service enables one property owner to sell or rent his property at a higher price, while another, owning an equal amount, finds the value of his property unchanged. Thus, the owner of a lot sees its value greatly enhanced by fine schools, good streets, and efficient police and fire protection; whereas, the owner of

a piano, sewing machine, or automobile finds his property worth no more than before.

How unjust, then, to tax the two men alike. Nay, it is a double injustice. Not only is personal property worth no more than before, but when its owner, having paid the tax, seeks a lot on which to put his property, he must pay the higher price due to the very public services for which he has been taxed. Thus the owner of one kind of property pays twice for the same service, and the owner of the other kind of property pays not at all for the service.

Manifestly no order can come out of the present economic confusion until lawmakers understand the principles of taxation.

REAPING WHERE ANOTHER SOWS

No sooner was it known that Henry Ford had made a bid for Muscle Shoals, and announced his purpose of building a great manufacturing community, than speculators platted the lands for miles around, and began selling lots throughout the country by means of widespread advertising. Few of the buyers have any intention of going there to live, but all believe that if Ford's plans materialize many thousands of people will, and handsome sum can be realized by selling to them.

Ethics may well ask why these fore-stallers should be permitted to levy this tribute when they did nothing to create the value. Common sense asks why this value caused by the development of Muscle Shoals should not be taken to pay the cost of the development. Good, sound Americanism demands to know by what right some may reap where others sow.

OHIO TAX LAWS

For a State that has closed its constitution to amendments permitting the taxation of land values it would appear that Ohio's revenue system is anything but satisfactory to its people. The common practice of taxing public utility corporations at a higher rate than other property has been declared unconstitutional. As a new appraisalment will require much time, the government faces a revenue shortage.

But the people themselves appear to be wrong-headed in applying their laws. The city of Cleveland recently laid out an important street at public expense. As a result the city now finds itself in possession of a large number of odd-shaped bits of lots that were not used in the highway. These plots are not large enough for anything but sign-boards, or hot-dog stands, but they are sufficient to prevent the adjoining lots from fronting on an important street.

This predicament comes from the city's disregarding a constitutional provision for excess condemnation. For ten years the cities of Ohio have had the power to condemn lands each side of public improvement. Massachusetts meets a large part of the expense of boulevards, parks and highways by means of this excess condemnation. Ohio cities are demonstrating the truth of the old adage that though a horse be led to water he cannot be made to drink.

THE INEVITABLE RESULT

Britains are noticing with increasing interest the connection between the expenditure of tax money and land speculation. Notwithstanding the deplorable business depression, and the vast sums devoted to housing and the relief of the unemployed, the speculators take their toll just the same. At a recent meeting of the Glasgow Town Council the Housing Committee proposed the purchase of 195 acres at a valuation of \$250,000. The same land was rated for taxation at \$1,625. Another piece of land for which the owner wanted \$1,680 an acre was rated at \$10 for taxes.

Nor is the money spent on road-building to give employment, without interest to the speculators. "One advantage of the motor way," said Lord Montagu, speaking at a conference at Newcastle-under-Lyme, October 19, "will be the increase in the value of the land through which it passes. Round London where the road exits have been made, land has advanced in price from \$250 an acre to \$1,000 and \$1,500 an acre." Poor Lewis Carroll did not need to write *Alice in Wonderland* to show his countrymen the fantastic and the grotesque. They have but to look about them.

LAND SPECULATION AND BUSINESS

A realty company of Chicago is placing on the market another large block of vacant land. One of the inducements held out to would-be buyers is that "taxes on this land are not worth mentioning."

That's just what we've been trying to point out for a long time. It's one reason why taxes on buildings and homes are so all-fired high. Its one reason, too, why the vacant lots themselves cost so much in the first place and why after purchasing the lots the people have so little left to buy building materials, clothing, fuel, furnishings and other things that go to make business. *The Bulletin of the Manufacturers and Merchants Federal Tax League.*

GETTING AT THE FACTS

The Harvard Bureau of Business Research has rendered a report on the profits of wholesale grocery business for 1922. The report is based on returns from 442 firms, with aggregate sales of \$556,021,000. The gross profit on this business was 11.6 per cent, the total expense of conducting the business was 11.1 per cent, leaving a net profit of one-half of one per cent. The report on retail grocers includes 443 firms, whose gross profits were 19.3 of net sales, expenses 18 per cent, and net profit 1.3 per cent of sales.

The Harvard Bureau of Business Research could render invaluable service by separating the 18 per cent expense item into its constituent parts, wages, interest, rent and taxes.

NOTES

The profiteering that cannot be got at by the restraints of conscience and the love of country, can be got at by taxation.—*Woodrow Wilson.*

The people get the kind of government they deserve. For after all it is the people, the voters of the country, who are selecting the men and women representing them in public affairs.—*Wm. O. McAdoo.*

Lord Bledisloe, writing on depressed agricultural conditions in England, proposes, "That all

improvements carried out on, or for, the benefit of agricultural land should be exempted from taxation of every description for a period of five years from their execution." Why stop at five years?

"A large proportion of the six- and seven-year-old children of the families interviewed, and three-fifths of the eight-year-olds had done field work," reports the Children's Bureau, Department of Labor, Washington, "after an investigation of the sugar-beet conditions in Colorado and Michigan. Is it for this that we have a heavy tariff on sugar?"

The average buyer of real estate is a one-time customer. He is not purchasing something that he desires like food or recreation, it is possibly more than likely something that he thinks he doesn't want. Therefore the real estate salesman in no sense can be an order taker. He must really sell.—*Los Angeles Realtor.*

It is better to take a step toward Utopia right now with the help of the skeptics, than to have the promise of Utopia in a hundred years. A dollar in the pocket is worth twenty in a will. You make more progress for ideas by going slowly and taking other people along with you than by sprinting ahead by yourself. *Dr. Habrman, Minister of Social Welfare, Czechoslovakia.*

DOES THIS CONCERN YOU?

From dear, kind, gentle, brave James H. Barry, who for so many years edited and published *The Star* in the interest of civic righteousness, and who without bitterness or complaining, saw it wither and die for lack of support from those he served, comes a letter. Possibly it has a message for others.

My dear Friend: I have received many copies of TAX FACTS, and never fail to read the bright little paper, in which I always find something good, very good, excellent and entertaining. Keep up the good work.

Remembering how hosts of folks wrote to me in like vein during the thirty-seven years I edited and published *The Star*—and also remembering how it never occurred to some (perhaps most) of those "appreciative readers" that it might help a little to subscribe to a paper they liked so well—I am heartily ashamed of my own past neglect of your valued publication. For the enclosed check please place my name on your list "regular subscribers."

JAMES H. BARRY.

San Francisco, Calif.

And practical Mr. Barry, realizing from his own experience the truth of the statement of Louis F. Post, editor and founder of *The Public*, that reform papers, like grand opera, are never self-supporting, but depend for their existence upon those who believe in their mission, writes his check for \$5.00, instead of \$5.00.

A free copy of TAX FACTS is an invitation to subscribe. A fine Christmas present for a thoughtful friend or a groping lawmaker. Fifty cents a year; three subscriptions for one dollar.

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A QUESTION OF FACTS

"The interests of the farmer and city worker are mutual," says Senator Smith W. Brookhart of Iowa. The farmers and city workers do the producing, says the Senator, but capital gets the lion's share. The farmer and the laborer are the chief customers of each other, but out of the dollar each pays for the other's product, the producer gets only 35 cents, the remainder going to capital.

It is much to be regreted that champions of the people's cause do not better fortify themselves before they open their attack. A man of the driving force of Smith Brookhart might accomplish much; but essaying to discuss political economy in this manner is to accomplish little or nothing.

What the Senator calls capital is not true capital. It is a composite term covering all the interests that have to do with goods passing from the farmer to the laborer, and from laborer to farmer. Some of it is capital, some is labor—for no capital ever does anything without labor—and some of it is legal privilege or monopoly.

Every real capitalist who touches the wheat that leaves the farm till it appears as bread on the laborer's table is in competition with all other capitalists, and his compensation is the least amount that will induce capitalists to continue in the business. The same can be said of free labor. But when monopoly, or legal privilege, is considered the case is different. It takes all the traffic will bear.

The man who owns the highway between farm and city has no direct competitor, and charges not what his service is worth, but what his victims will stand rather than not ship goods over his road. The same is true of the man who owns the land occupied by the various persons who handle the wheat during its intricate course from farm to consumer. Neither the road owner, the land owner, the franchise owner, or the patent

owner is a capitalist. He is an owner of privilege conferred upon him by statute that enables him to collect toll from the creators of wealth without himself contributing to the process.

Owners of privilege often combine real capital with their monopoly, and the charge for both appears in one amount. This is what makes many well-meaning friends of the people jump to the conclusion that capitalists are the cause of our economic troubles. So long as they include real capital with monopoly, and charge the depredations of the latter to capitalists they will do little toward restoring order.

The Anderson Report, made by the Joint Congressional Commission of Agricultural Inquiry, composed of Senators Lenroot, Capper, McNary, Robinson, Harrison, and Congressmen Anderson, Funk, Summer, Mills and Ten Eyck—overwhelmingly friendly to farm interests—stated that the Commission was unable to find any flagrant profiteering in getting farm products to city consumers. While the Commission still held the cost to be excessive, it thought the evil could be remedied only by careful watching each step in the process of producing, manufacturing and distributing.

Mr. Anderson, chairman of the Commission, instanced as an illustration, the cost of a package of rolled oats retailing for 20 cents, made from oats selling at 32 cents a bushel. Of the 20 cents, the retailer got 4.2 cents, of which 3.2 cents represented the cost of doing business, and 1 cent profit. The wholesaler received 1.8 cents, 1.5 being expense, and .3 cents profit. The manufacturer got 9.6 cents, 1.2 taxes, 1.6 transportation, 1.7 advertising, 1.3 cost of selling, 1.8 cost of manufacturing and 2 cents profit. The elevator got .4 cents, the railroad .5 cents, and the farmer got 3.5 cents. Thus, of the 16.5 cents added to the farmer's 3.5 cents worth of oats to make the 20 cents, only 3.3 cents went to capital in profits, the remainder going to labor and monopoly.

Let Senator Brookhart and the other members of the farm bloc secure the appointment of a committee to analyze the 13.2 cents that went to labor and monopoly and taxes. Having done this it will be found that the true capitalist and farmer and laborer have mutual interests. They can then set themselves intelligently to the task of eliminating spurious capital, whose real name is special privilege or monopoly.

More facts and less denunciation will be a wonderful help in securing justice for the farmer and laborer.