

TAX FACTS

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Fortunes Made While You Wait

Wallingford outdone. A never-fail get-rich-quick recipe: Take a ride over the city in an airplane, and while aloft drop a weight. Wherever this weight strikes, descend and purchase that piece of property. In five years time you will have doubled your money invested. Why risk capital in drilling two thousand feet into the earth for oil, when money is to be had for the taking on the surface.

Speculative rises in Los Angeles land values during the past few years have attracted the attention of the knowing ones. Now they are attracting the attention of the unknowing ones. That is the time when the real harvest begins. It will continue as long as the crop of dupes lasts.

The present state of mind may be judged by the wild enthusiasm aroused in so sedate and substantial a body as the Los Angeles Chamber of Commerce over the address of Mr. A. C. Blumenthal, the brilliant young realtor, who is credited with a "clean-up" of twenty million dollars in real estate since he came to the city in 1921. What he did anyone can do who has the nerve—and the money.

This is the game for real sports. Men who are willing to risk big money on the rise in land values may increase that money many fold. True, chances of failure are lessened by good judgment; but as long as population increases land values will grow, and someone is certain to win a spectacular prize.

But what of the aftermath? The players who sit in at Monte Carlo put to hazard only their own fortunes. What one gains, others lose, and the effect is confined to a comparatively few persons. But the men who gamble in land are juggling with that upon which men and women and children live.

When by means of propaganda and boosting clubs the land values of Los Angeles are raised a hundred million dollars in an incredibly short time it means one of two

things. Either the land is worth that much more, or it is not. If it is worth that much more, the men and women who dwell here will have to pay rent on that amount as long as the city continues. If the value is not real, but is due to frenzied speculation, the bubble will burst—when the knowing ones have withdrawn from the game—and the unknowing ones, who were drawn into the game by suggestions and advice of the Napoleons of finance, will be found holding the sack.

But Mr. Blumenthal is not heartless. Though he assures the Chamber of Commerce that all the land in Los Angeles will double in value within five years, and urges the members to get in while the getting is good, he yet has a thought for the merchant and business man who has to use this land.

After relating his adventure with the property at Seventh street and Broadway, which yielded a rental of \$42,000 three years ago, and now returns \$430,000 from the first two floors of the new building—a single small store paying \$5300 a month—he said:

In behalf of the merchants who are forced to pay exceedingly high rental for downtown ground floor space, I am very much in favor of changing the present height restrictions of 12 stories to 18 stories.

This may have been intended as a pleasantry. When a man gloats over the millions that are to be made in land speculation, and bemoans the plight of the poor fellows who foot the bill, it is difficult to tell just when he is serious.

In view of the fact that if the building limit were fixed at six stories, a survey of the business section of the city would show vastly more unused space below that line than there is used space above it, the talk of raising the limit to 18 stories simply must have been intended as a pleasantry.

Mr. Blumenthal says that if the owners are permitted to build 18 stories, the increased rentals will enable them to reduce the charge for the ground floors. It might also be said that if the owners of the one and two-story shacks that disgrace the streets all through the downtown section were raised to six stories, their competition would reduce ground floor rentals.

What Los Angeles needs, and what every large city needs, is a means that will remove the wornout rookeries that cumber valuable lands all through the business section. It should be said to the credit of Mr. Blumenthal that he improves his holdings. And by the same token let it be said to the shame of our tax laws that they fine him for his enterprise.

The property at Seventh and Broadway is a case in point. In 1919 the ground was occupied by an old three-story building that the assessor valued at \$15,480. The new building was assessed in 1922 at \$529,160, which meant an increase in the tax on that corner from \$558.82 to \$19,102.67. Such a policy reminds one of the high licenses with which cities used to discourage the saloons.

But fining builders for their enterprise is not the end of the evil. The high speculative rents that merchants are compelled to pay are a burden upon business, without any compensating advantages. The high taxes on buildings are an added burden. Both are reckoned as part of the cost, and are added to prices paid by consumers.

The same is true of factory buildings, and of machinery and products in the factories. It is true of the homes, hotels and apartments in which the people live. As long as the people maintain a tax system that burdens industry by taxing buildings and goods they must expect the cost of living to be high. And so long as lands double in value in five years, few men will put money into buildings unless rents are abnormally high—as they are at present in Los Angeles.

The way to relieve the merchants who are staggering under these speculative rents is not to raise the height limit of buildings, to shut out light and air from the streets, but to encourage new buildings in

place of the rookeries inherited from the days when Los Angeles was a village. Remove the tax on buildings, let the owner know that his tax will be the same on his lot whether he keeps his one-story, or builds a twelve-story building, and the people will see buildings go up and rents come down.

It all depends upon whether our tax policy is directed and controlled by the people who pay or the people who collect these speculative rents.

PERSONAL PROPERTY TAXES

Editor of Tax Facts.

The American plan of taxation in June TAX FACTS sounds good to me. If there is anything that squares with American principles it is that every man should pay for what he gets. But what are you going to do with personal property? Improvements need not be taxed, because the owner uses land, and the land is taxed. But the owner of personal property does not use land, and so escapes all taxes; yet he has the protection of the government.

ABE WHITKEN.

Fresno, Calif.

Mr. Whitken errs in saying the owner of personal property does not use land. Every one uses land, either his own or some one's else. If the owner of personal property owns land he should pay the annual value conferred upon it by the community. If he rents land, the community-made annual value will be included in the rental that he pays, which is all that it is worth to live in the community. To tax his personal property is to make him pay twice for the same service.

But it may be said the owner has a large amount of money that he lends, and yet uses very little land. In that case it may be answered that loaned money carries in the rate of interest the cost of making the loan. Untaxed money in a city may be had at six per cent. The rate is six per cent because, all things considered, that is equivalent to the average earnings in business. Should the State levy a tax of one per cent, and enforce the law, interest would go to seven per cent. Hence, the tax would be paid by the user, not by the owner of the money. Since taxes on money, or on goods, are paid by the consumer, and since the owner of personal property pays the personal property tax only on what he consumes, it is clearly a poor method of reaching the rich.

Personal property taxes are not only unnecessary, if community-made land values be taken in taxes, but they fall upon business, and increase the cost of goods to the consumer without benefitting the producer

IT SOUNDS REASONABLE

I went to Russia filled with hatred of what Communism has brought to Russia and for what it threatened to bring to the world. I left Russia believing the Russian menace to the world is over. It has passed because the theories of Communism, when tried in the fires of actual experience, failed utterly to fulfill the hopes of its leaders. . . . The theories failed in practice because when the peasant was asked to rise early and plow late for the good of the community, he refused to do so. Production was brought to the level of peasant needs and the cities starved. The workman in the city, when asked to produce for the comfort of others, loafed on his job. If a man does not profit by his labor he will not labor. Houses fell into disrepair. Water pipes burst. The dream of Heaven for all became Hell for many. . . . Communism has failed, not because its leaders were not sincere, but because its theory did not work when applied to facts based upon economic laws and the higher laws of human nature. . . . Then in May, 1921, the new economic policy was introduced—a policy new only in name, for it was a return to the old—to the policy of individual opportunity, of wages for work done, of reward for those who worked and served. The retreat is slow. It is not yet complete. There are many halts. Moments come when it seems the progress of retreat is lost; the mills of the gods grind slowly but surely, as theories yield to practical experience.—*Irving T. Bush, president of the Chamber of Commerce of the State of New York, in Los Angeles Examiner.*

FROM FARM TO CITY

Forty-five thousand boys come of age each year in Texas. Sixty per cent of these are farm boys, as that is the percentage of rural population. Of this 60 per cent, or 27,000 boys, more than 20,000 come from tenant families or those of mortgaged farmers. The more ambitious of these see little hope on the farm and naturally drift to the cities, but these are not the only ones coming to our cities. The mortgaged farmer when sold out comes to the city for refuge. . . . Texas is rich in natural resources that should be opened to use and not to monopoly. Some change must be made and it should be made in such a way as to bring the least disturbance to social and business order. To those who understand, the simple way is through taxation; but we rarely adopt the simple way until we have tried without success every artificial means to remedy an evil. *Common Sense, San Antonio, Tex.*

TAX RELIEF CONFERENCE

Persons expecting to visit Chicago this year should make it a point to be there November 9 and 10, when the Tax Relief Conference called by the Manufacturers and Merchants Federal Tax League convenes. The splendid work of this organization is a guarantee of a live meeting, and a constructive program.

NOTES

"Gettin' an idee into a man's head," says Uncle Cy, "'s like drivin' a wedge into a white-oak log. It'll go easier if ye start the small end first."

Motto for legislators: Never tax anything that would be of value to your State, that could or would come to you, or that could or would leave you.

Seven hundred miles of the costly streets of Manhattan and Brooklyn run past vacant lots, and every man, woman and child that passes a vacant lot contributes to the support of the owner through the increase in the value they cause just as surely as though they dropped their nickels or dimes into his hat at each passing.—*James R. Brown.*

The construction and upkeep of public improvements and the performance of those community services for which government exists are reflected in community-made site values. All other forms of wealth are individual and unrelated to public expenditures. For the taxing authorities to levy upon them therefore smacks of confiscation. *Maryland Tax Reform Association.*

A piece of land in London containing 4,365 square feet, a trifle less than a tenth of an acre, received a bid of \$425,000, according to the Westminster Gazette; but the owners held out for \$500,000. This site value of \$5,000,000 an acre is due entirely to its location. It was created by the industry of the community, and not by the individual owners. An increasing number of persons are wondering if there is not some connection between this fact and the idle and underpaid labor.

Let the value of land be assessed independently of the buildings upon it, and upon such valuation let contribution be made to those public services which create the value. This is not to disturb the balance of equity, but to redress it. There is no unfairness in it. The unfairness is in the present state of things. Why should one man reap what another man sows? We would give to the land owner all that is his, but we would prevent him taking something which belongs to other people.—*Sir Henry Campbell-Bannerman, former British Prime Minister.*

Land-value interests have become so involved in legitimate property interests that they cannot be separated by any sudden mechanical process without causing such confusion as to make reaction almost inevitable. The only process which can be depended upon is the chemical one of gradual analysis and separation. The compound of land values and legitimate property can be dissolved by the process George proposed (gradual exemption of improvements and personal property from taxation) and stay separate; but if an attempt be made to separate them by fiat, the separation will be so crude and the confusion in making it so irritating that public opinion will react as sure as fate.—*Louis F. Post.*

It is generally conceded that where an improvement is made, such as laying a new pavement, putting in a sewer, widening or opening a new street, it is a local improvement to be paid for by assessing the property benefited. The construction of subways to carry either rapid transit or street car passengers into or out of a certain district, which would in effect be adding another deck to the street, should be considered distinctly as a local improvement and paid for by special assessment against the property benefited. If subways were fully paid for by special assessment, the evils of high fares or overcrowding on account of the car riders having to pay the fixed charges, might largely disappear for a time. *Public Ownership.*

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PROMOTING HOME OWNING

A proposal has been made by William Mead, president of the Los Angeles City Planning Commission, and member of the Board of Freeholders, that there be incorporated in the new city charter a provision for the creation of a municipal housing commission, with power to issue from \$20,000,000 to \$50,000,000 worth of bonds for the purpose of providing homes for Los Angeles citizens with small incomes.

The main features of the proposal are: the creation of a special department of the city government, the issuance of tax-exempt bonds at 5 per cent., the building of homes and apartments on a 6 per cent basis that could be sold or rented to families who are now unable to finance homes for themselves. It is not intended to compete with building and loan associations, or with present building companies, but to reach the large and growing class that is unable to take advantage of their service. Its purpose is to make home ownership possible at prices no greater than the rents now paid.

Mr. Mead has been moved to this act after a long study of housing conditions in this and other cities. Of the local situation he says:

Owing to the tremendous growth of Los Angeles, the rapid appreciation of land values and the high cost of building, it has become difficult if not impossible for the unskilled wage-earner and low or moderate-salaried clerk to buy a home on the installment plan, pay the carrying charges and support a family.

That the gravity of the case has not been overstated is a matter of common knowledge to those who keep in touch with real estate prices. An experienced realtor, operating in the industrial district in the southeastern part of the city, and within the six mile zone, where many people of small incomes live, quotes lots at \$370 in 1919, now selling for \$1500. A \$2000 acre then is now worth \$25,000. In the western part of the city, lots sold for \$1300 last June, are now selling for \$2500. Lots within three miles

of the city hall that sold for \$700 three years ago are now bringing \$3000 and \$4000. When the administrators of "Lucky" Baldwin's estate had sold half of a large parcel of land, the remaining half was worth more than the whole when they began.

But it is a question if Mr. Mead's remedy is sufficient. Lack of credit on the part of the small wage earner who has only his labor to pledge is a serious handicap. By the time he has saved enough for a first payment on a home—in addition to meeting present living expenses—he is almost certain to find that the land he thought to buy has gone up faster than his savings have accumulated.

Yet, if Mr. Mead lends this man money at 6 per cent, when the market rate is 7 or more, in order to overtake "the rapid appreciation of land values," will he not by that very act send the values higher? Though it might temporarily relieve those now in need, it would make the burden greater for those who come after.

There is a means, however, by which Mr. Mead's purpose can be accomplished. Instead of issuing tax-exempt bonds for money to lend at less than the market rate, let the city exempt buildings from taxation, and let the amount so remitted be added to the vacant lots held for speculation. Not only will this make houses cost less, but it will check the speculative rise in lots. Shifting taxes from buildings to lots will not only relieve present builders, but by checking speculation in building sites it will aid future home-builders.

New York City met the home shortage by exempting new dwellings from taxation for ten years. Of the working of this law Lawson Purdy, former president of the New York department of taxes and assessments, writes:

In the year before exemption, plans were filed for one-family, two-family, and multi-family dwellings to house 14,323 families. We ought to file plans annually, just to keep pace with the increase, for about 30,000. In the two years and one month, from February 26, 1921, to March 31, 1923, plans were filed to house 110,549 families in one- and two-family houses, and 99,838 families in multi-family houses.

Tax exemption of buildings, which is often resorted to by enterprising towns to induce the building of factories, is more in keeping with American thought and institutions than the doubtful plan proposed by Mr. Mead, and is likely to have a more lasting effect. To lend money at less than the market rate is to mix government with business; to tax the unearned increment of land is to take business out of government.