

# TAX FACTS

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## State Rivalry

California business men are confronted with a serious alternative. They can plod along in the old beaten path, and see their State slip from its place in the van of progress, or they can strike out in new lines to restore it to its old stride. Competition grows ever keener. Manufacturers, jobbers, merchants strive to reduce costs and promote efficiency. Community vies with community, city with city, State with State.

California and Florida have enough in common to make them rivals for tourists and settlers. Both States have had a phenomenal growth in the last few years. Both are eagerly inviting investors.

Choice of climate, or other physical advantages may be a matter of taste. But financial returns and investments are devoid of sentiment. Money flows where, all things considered, the greatest dividends are. Even so prosaic a thing as taxes will seriously affect the current.

The Secretary of the Jacksonville, Florida Development Board, speaking of the constitutional amendment adopted in that State, prohibiting an inheritance tax, said:

Florida has great latent resources, needing capital to develop them . . . Ratification of the amendment will result in millions of dollars being available to be loaned at a low rate of interest for building new hotels, apartment houses, residences and industries. . . . Large building operations mean continued employment for the laboring man, increased population, and more prosperity for the merchant.

The Tampa Tribune, commenting on the \$500 exemption of personal property—"a relief which will be cordially welcomed by persons of moderate means who find the tax burden heavier and more difficult to carry"—adds:

It will give to this State a tremendous drawing power which is sure to bring to us as citizens thousands of worth-while, "well-fixed", progressive and enterprising people from other States.

But Florida is not California's only rival. The business men of the Coast are

not content to live on the patronage of retired Easterners who come here for the climate. They claim to be a commercial and manufacturing community.

But here again they find themselves pitted against keen rivals. New York and Pennsylvania are also commercial and manufacturing States. What is more, the legislatures of those States have tried to relieve business and industry of a part of the tax burden. To relieve the housing shortage at the close of the war New York permitted cities to exempt dwellings from taxation for ten years. And both New York and Pennsylvania modified the general tax law until industry in those States pays practically no personal property tax.

A survey by the Detroit Bureau of Government Research of the comparative taxes of 184 cities over 30,000 for 1924, published in the National Municipal Review for December, presents some figures that will amaze the business man who has not kept abreast of the newer ideas in taxation.

The survey, for instance, shows the proportion of personal property taxes as compared with the total tax levied in the city. In New York city the personal property tax is only two per cent of the total. In Rochester, Syracuse, Buffalo, Schenectady, and other thriving manufacturing centers the personal property tax is less than one per cent of the total tax. Pennsylvania is following New York. In Pittsburgh, Scranton, Reading, and other thriving manufacturing

cities, less than one per cent of the property on the assessment rolls is personal property. The personal property in Los Angeles is 20 per cent of the total. In San Francisco it is 18 per cent.

What have the California boosters to say! How are the realtors, the members of the Chamber of Commerce, the All Year Club, the editors, and the statesmen to meet that? Granted that Los Angeles, San Francisco, and the lesser cities of the State have advantages of climate, and longer open season, will not these be swallowed up in the heavy personal property taxes. And even should local manufacturers be able to withstand the competition of New York and Pennsylvania, how much better they could do so if put on a tax basis equal to that of their eastern rivals.

So far as is known only one organization is prepared to meet this situation. That is the Tax Relief Association of California. This organization of progressive conservatives plans to submit to the coming session of the legislature a constitutional amendment exempting from taxation \$2,000 worth of improvements on land to each taxpayer, and all personal property—the exemptions to be made at the rate of 25 per cent a year to avoid business disturbance.

Certain reactionary Californians who are determined that no changes shall be made in the State's antiquated tax system, have criticised this measure as too radical, and a step toward something more radical. The thinking people of the State can decide for themselves. The measure is before them. They have before them also the examples of Florida, New York, Wisconsin, and other States that are trying to meet the requirements of modern industries.

Thoughtful men and women will not be frightened by the false charges of speculators who profit by the present tax system.

### **RACK RENTING IN WASHINGTON**

Complaints appear in Washington papers that the land lords of that city are boosting rents again, and evicting tenants who cannot pay the new rate. An apartment house room that rented for \$27.50 in 1920, was advanced to \$40, and the new lease calls for \$55.

The only effective way to keep rents down is to increase the number of houses. And the way to increase building is to make it to the interest of holders of

building-sites to build. Men will not put money into houses when there is more profit in stock, factories, or vacant lots.

The Federal Government pays half of the taxes of Washington, which makes it profitable to hold lots vacant at a high price for the incoming stream of people who are flocking to the Capitol. If the Commissioners of the District of Columbia will take a leaf from the experience of New York City—which met the same problem by exempting residences from taxation for ten years, or from Pittsburg, Pa., which taxes buildings at half the rate of land—Washington will soon have more buildings, and fewer vacant lots.

### **SPECULATION AND PRODUCTION**

In spite of the ingenious methods devised by statesmen and financeers to get more revenue from large fortunes, and regardless of whether the maximum surtax remains at 40 per cent or is raised or lowered, it is still true that it would be better to stop speculative incomes at the source, rather than to attempt to recover them after they have passed into the hands of profiteers.

If a man earns his income by producing wealth, nothing should be done to hamper him. For has he not given employment to labor, and has he not produced goods for our consumption? To cripple or burden such a man means that he is necessarily forced to employ fewer men, and to make less goods, which tends to decreased wages, unemployment, and increased cost of living.

If, however, a man's income is not made in producing wealth and employing labor, but is due to speculation, the case is altogether different. The speculator as a speculator, whether his holdings be mineral lands, forests, power sites, agricultural lands, or city lots, employs no labor and produces no wealth. He adds nothing to the riches of the country, but merely takes toll from those who do employ labor and produce wealth.

If part of the speculator's income—no matter how large a part—be taken in taxation, it will not decrease employment or lessen the production of wealth. Whereas, if the producer's income be taxed it will tend to limit employment and stop the production of wealth.

Our lawmakers will do well, therefore, to pay less attention to the rate on incomes, and more to the source from whence they are drawn.

## A TALE OF TWO CITIES

San Diego, California, is in marked contrast with Fall River, Mass. The assessment figures for San Diego in 1919, in round numbers, were: Personal property, nine millions; improvements, six millions; lots, seventy-two millions. In other words, nearly five dollars in six of city revenue was derived from lots. The tax on buildings is so small that it pays to build much sooner than under the usual tax. And San Diego, considering its population, is one of the best built cities in the United States. Much of the best construction has occurred since the introduction of the new policy. Large modern hotels are numerous. Who can name just one in Fall River? That city is rich and has one hundred and twenty thousand people. Why do not its buildings equal those in San Diego?

Explanation is easy. For every dollar of tax on land value, over four rest upon production. The tax on buildings is so heavy that it does not pay to build. Improvement is discouraged. The owner of the best hotel there told the writer that if the tax were removed he would at once begin to build. The more or less discouraged appearance of many New England manufacturing cities is not difficult to understand. They have penalized industry and subsidized idleness.—*John Z. White, Publicist.*

## CROOKED TAXATION

That tax is best which does not increase taxes to the consumer, as the sales tax or taxes on production or consumption, but is levied on surpluse, as on land values above "no rent" land and on incomes above the normal cost of living, in each case in proportion to the surpluse, thus averting increase of prices. Before the Constitutional amendment of 1913 permitted the income tax, it was argued that our revenue must chiefly be collected through our custom houses. Yet, while in the pre-war fiscal year 1913-14 customs duties returned 292 million out of 734 million total revenue, or about 40 per cent., the treasury estimates for 1923-24 figure 425 million customs revenue out of 3,361,000,000 or under 13 per cent.; in intervening years the proportion dropped as low as six per cent. Tariff for revenue is directly opposed to prohibitory tariff duties which have their chief purpose in keeping goods out of the country and keeping up prices at home. A direct tax is more wholesome than an indirect tax because it leads the tax payers to look after government expenditures, while "crooked taxation" hoodwinks them into the belief that some one else "pays the piper." *R. R. Bowker, Vice-President, Free Trade League.*

## WORTH LOOKING INTO

In California in 1880 it cost us \$3,871,000 to run the State, and the total State debt was 3,133,000. In 1924 it cost us \$87,000,000 to carry on our State operations, and in 1922 our net debt had risen to \$76,000,000. This net debt increased in just twelve years, from 1910 to 1922; from \$10,000,000 to \$76,000,000.

The taxpayers of California, in county, municipal, State and National taxes in 1923, paid considerably more than 500,000,000 in taxes, or substantially the value of all the products of the soil of the State, fruit and farming, in their raw state.—*Paul Shoup, vice-president, Southern Pacific Railroad Company.*

## A FRIEND OF THE FARMER

The remedy for the bad condition of agriculture to-day lies in shifting the taxes from the products of the farmers' labor to the land value itself. Every time the farmer makes an improvement by adding new buildings or equipment he is penalized by more taxation, while the man who holds land for increase in value or to speculate on is exempt of these added taxes. This is not fair nor does it encourage improvements; and the unused land rises in value out of all proportion.

There should be no taxes on crops, live stock, buildings or other improvements on the land. Such a course would at once stop land speculation and make it easier for farmers to acquire a farm, for holding land out of production would no longer be profitable.

The land holder and the speculator will protest most vigorously but why should they dictate the policy that shall further debase agriculture and drag down our nation?—*From a public statement by U. S. Senator E. F. Ladd, 1923.*

## DID HE SPEAK UNDERSTANDINGLY?

Government should not punish or discourage those who do what we want done. It should not try wild and radical experiments. But it should proceed in the light of experience to readjust the burdens of taxation so they will fall upon the citizen as equally as possible.—*Andrew W. Mellon, Secretary of the Treasury.*

## NOTES

There is no such thing as over production. It is an impossibility.—*George E. Roberts, former director of the Mint.*

I say to you farmers that the land value tax of which I am proud to be an advocate, would be to the over-burdened farmers and working men the greatest boon, the greatest blessing, the greatest God-send that any country ever knew.—*Tom L. Johnson, former Mayor of Cleveland, Ohio.*

After ten years of close study of the subject of taxation, as the responsible head of the Washington State Grange, I am positively convinced that the land value plan of taxation is not only the best for the farmers, but the only one that will take the burden of taxation off the producers and place it where it really belongs, namely, on the beneficiaries of special privileges.—*Late Master of the Washington State Grange, C. B. Kegley.*

We must stop taxing—gradually to be sure, but as rapidly as the public can be induced to see the vital importance of doing so—personal property, buildings, machinery, and all other products of labor essential to the advantageous use of land, including the value of clearing and draining. We can make up the difference by a larger levy on the location value of land.—*Lewis Jerome Johnson, Professor of Civil Engineering, Harvard University.*

There is no possible way except through the adoption of the land value tax to prevent the robbery of the farmer, which takes even from the most prosperous a large part of his just profits, and which steadily reduces increasing numbers to the condition of struggling, poverty-stricken tenants, or, what is essentially the same thing, mortgage-burdened owners whose equity in their farms is steadily becoming a minus quantity.—*George P. Hampton, late Manager of the Farmers' National Council.*

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EDITOR.....STOUGHTON COOLEY

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## THE CONSERVATIVE

Why the enormous amount of crime in this country? Why the disregard of other's rights? Why the defiance of legal authority? Why the frontier bandit in the very centers of population? Why the flouting of conventionalities by the young, and the disregard of the marriage tie by their elders? Has civilization been weighed in the balance and found wanting? Has America's achievement of wealth and power been followed by moral decay?

Whatever the answer, the need is pressing. It will not do for the ultra conservatives and the extreme radicals to waste time vilifying each other. The real conservative and the real radical—the conservative wishing to retain the good, and the radical wishing to eliminate the evil—are not so far apart that they cannot work together.

The true conservative is not the man who stands with his back to the future, and defies all who suggest change, any more than the true radical disregards the experience of the past, and plunges headlong into the unknown. The real conservative can preserve the good in present institutions only by yielding to changes due new conditions.

To explain increasing crime and disregard for law it is not necessary to assume a breaking down of our moral fiber. There is the alternative of changed conditions.

In the days when 85 per cent of Americans owned their own homes and farms, there was free land close at hand upon which to build. As population rolled westward, dotting the country with homes and farms, the frontier served the double purpose of offering escape to the hard pressed laboring man, and a field of adventure to those restless persons who are slow to settle down to an orderly life.

The end of cheap land, however, caused a falling off in home-building; and the disappearance of the frontier

turned the restless and discontented youth back upon society to satisfy their craving of adventure in crime.

This is a new situation to American youth. It is a different environment from what greeted his forebears when they approached maturity. Is it reasonable to suppose that the same laws will produce the same results when the factors have changed?

The way to preserve American ideals is not to insist upon unalterable laws in the face of stupendous economic changes, but to modify the laws to meet new conditions.

There has been no deterioration in American manhood. But there has been a great change in its physical environment. Its opportunity for free development has been cut off, and we have failed to provide new opportunities.

The ultra conservative can shut his eyes to the changed conditions, while the ultra radical can continue his agitation for a revolution. If neither yields, the explosion will follow.

But why the explosion? Real progress comes not by revolution, but by evolution. A revolution means the destruction of the good along with the bad, and years of effort are required to replace the good. Russia, to her sorrow, is demonstrating this truth.

If, however, the conservative has the wisdom to shift his position sufficiently to meet the new conditions, the spirit that made America will preserve and keep it. The free access to natural opportunities that has confronted Americans from the landing of the Pilgrims, down to our own time, no longer exists. Something must be offered in its place. Are we going to consider it in a spirit of cooperation? Or are we going to fight to see who is the strongest?

It is not necessary, nor is it wise, to make radical changes that will upset business and frighten people. Society is a going concern, with rules and customs that coordinate the activities of millions of people who have little science or learning, but who have grown up under these rules and customs.

Not all these rules and customs are wrong. In fact, very few are. Some however, do not meet fully the new conditions. But it will be far better to change them in the light of measured reason, than to put them to hazard in a revolution.