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The Bank Tax Muddle

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Once more the ill advised effort of the State of California to put a high tax on banks, (which in the last analysis is a tax on bank borrowers), has been given a set back by a decision of the United States Supreme Court.

The new California tax law levies a tax of four per cent on the net income of all banks in the State, and provides that any income a bank may receive from tax exempt securities shall be included in determining the bank's net income.

The Supreme Court has recently decided, in an eastern case, that a tax exempt security, which includes many Federal, State, county, and city bonds, is really exempt, and cannot be taxed indirectly under the guise of a State income tax. Under this decision many banks and finance corporations in California will pay almost no State income tax at all.

A tax on real estate mortgages is a tax on debtors, and was long since wholly repealed in California. A tax on banks, likewise, is a tax on debtors, and should be wholly repealed. Such a repeal would make for lower interest rates in the State, and would help to make California the financial center of the whole Pacific Ocean area.

Assuming, however, that the California bank tax will not be repealed entirely, it is certainly not too much to hope that the impossible and illegal effort to put a high tax on banks will not be allowed longer to muddle up the whole California tax system.

In view of this latest decision of the United States Supreme Court, what change should be made in the California tax system? TAX FACTS has suggested the following three measures:

1. Reduce the present State income tax on all ordinary California corporations, including

banks, from four per cent to two per cent, or less—in the light of the State corporation income tax figures that soon will be available.

2. Repeal the offset allowed corporations on their State income tax for personal property taxes paid locally. This complication was adopted in the ill advised effort to get a larger tax out of the banks.

3. Repeal the present local—city and county—taxes on tangible personal property, such as manufacturing machinery, materials, stocks of merchandise, household furniture, workman's tools, farmers' implements, live stock, stored crops, and all other tangible personal property.

This repeal of the local taxes on tangible personal property is necessary in order that the total taxes (State income and local) of merchants and manufacturers will not be raised by the repeal of the offset for personal property taxes paid locally.

This repeal of the local taxes on tangible property will be of tremendous benefit to the agricultural, manufacturing and commercial interests of California. It will simplify our tax system and make it more honest. The tax on tangible personal property has always been inefficient, unequal and dishonest. It is an unjust and unnecessary burden on all the productive businesses of our State, in competition with Pittsburgh, New York and London, which are almost wholly free from the tax on tangible personal property.

The tendency in all enlightened communities is to lighten or remove taxes on desirable things that can be taken from the State, or that may be brought into the State. Shall it be said that California is an exception?

THE SACRED BULL

The facetious paragrapher who made the play on the word "realtor" adopted and incorporated as a name by a certain group of citizens may have spoken more wisely than he knew.

"Real" is from the Spanish royal," he said, "and 'tor', Spanish for bull. 'Realtor', royal bull."

Royalty, until comparatively recent times has been looked upon as sacred. Likewise certain races have worshipped the bull. Hence, it is a logical sequence that we should have accepted "Realtor" as the sacred bull, and should have fallen down and worshipped.

How else shall we account for the homage paid the realtor by the general public, and the deference shown him by legislators, common councilmen, county commissioners, and public officials?

Realtors are practically the only business men in the community whose stock in trade tends upward in value as long as the community grows. The merchant, the manufacturer, the shopman, the farmer, the laborer see their goods, their tools deteriorate or wear out with time.

Population may double, government be made more efficient, new schools may be established, anything and everything may be done to improve living and business conditions, but it adds nothing to the value of a bolt of cloth or a hat.

But it is different with the land speculator. Every person who comes into the community, whether from Europe or from Heaven, increases the competition for space, and tends to advance the price of land. Every benefit of government or other service is recorded by the realtor.

Yet at the first attempt to adjust the tax base so that the man who enjoys these exclusive benefits shall pay in proportion, there is a roar of protest from the realtor.

When the Hoover committee appointed by President Coolidge to look into "Recent Economic Changes in the United States" made its report, the Associated Press sent out from Washington a column. The point of the report was that the country had enjoyed remarkable prosperity, which might continue if we were careful not to disturb the balance between production and consumption.

One of the paragraphs containing sixty words, begins with these significant words: "If natural resources, especially the land, are wastefully used." This paragraph was printed verbatim in the *Los Angeles Times*, excepting that the words, "especially the land", were omitted.

"Especially the land." Ah, that is the forbidden word. Let no man do or say aught to call attention to the millions of idle acres in California, or to the millions of vacant lots in her cities, lest the thought occur to some mind: By what right do the owners thus wastefully use them?

LOWER TAXES ON EARNED PROPERTY

It is generally conceded that Congress established a just and wise principle in making a distinction between the taxation of income or property that is earned, and the taxation of income that is unearned, giving to earned values much the larger consideration.

Why should not the city and county in their method of collecting revenue, exercise the same consideration as the Federal government?

Earned value or income, signifies that labor or service of some kind has been rendered in exchange for such value; while unearned income may signify the exercise of some legal or special privilege, requiring no labor and no service of any nature whatsoever.

Two men may own the same number of lots in a city.

Mr. A develops his land with fine buildings. By his enterprise he has utilized and called into requisition nearly every branch of labor; from the expert architect to the unskilled workman; stimulating into activity, in large degree, the industrial life of the city, and furnishing purchasing power to many of its citizens.

Mr. B, on the other hand, is content to allow his lessees to erect whatever temporary structures they see fit, so long as he receives a satisfactory ground rental and is not called upon to exercise either brain or brawn.

Mr. A by his energy and ambition has created in his fine buildings great labor values that are alike beneficial to the city and its citizens; while idle Mr. B is allowed by our vicious tax system, to take an increased ground rental, resulting from the public spirit and enterprise of his fellow-citizen Mr. A.

Why should not the citizen who sets the wheels of industry and trade in motion by investing his capital in fine buildings, be recognized as conferring values upon the city, and be accorded especial consideration in the taxation of his labor values?

It is quite fair that as both Mr. A and Mr. B receive the same city service as reflected in their land value, that they should pay back to the city an equivalent for what they receive; but in justice to Mr. A who has so largely benefitted his community, a lower tax rate should be levied, or better still his buildings should be exempt altogether. In fact, many industries have been established in cities offering exemption for a number of years.

Would it not really redound to a city's welfare and prosperity, if the wheels of industry were allowed to revolve continuously, by granting perpetual freedom from taxation to all labor values?

The business men of Pittsburgh, seconded by the Chamber of Commerce have secured and enjoyed, since 1925, a graded tax plan that reduces the rate on buildings and homes fifty per cent of the rate on land, and are now seeking a further reduction.

Why should not our city and county governments fall in line with the Federal government, and take a long step toward this more equitable tax system that promotes development and general welfare?—S. S. Taber.

MORE SPECULATION

The real estate editor of the Los Angeles *Times* gleefully cites the fact that a group of capitalists in Cleveland, Ohio, have recently invested \$4,000,000 in Vine Street property. Although one piece will be improved shortly, says the editor, "the balance, all corner lots, will be held for investment." And he continues prophetically:

It is well within the bounds of possibility that the move by the Cleveland group may bring a flood of eastern money here for real estate investment. The talk of quick profits, which the indicate is likely to make, will not take long to spread through the money marts of the East. When it does, additional eastern funds will no longer be content with the long-time, short profits that are prevalent on most of the real estate east of the Mississippi.

Fine! That's the way to get easy money. Put it in Los Angeles real estate or other California lands, which increase faster, rise higher, and make quicker profits than any other lands in the country.

True, the Cleveland syndicate will erect only one hotel, but it will hold lots for us, corner lots. Labor will be duly thankful for an opportunity to work on the hotel, and dealers to supply the materials, but think of the gratitude of the speculators who have heroically held those corners all these years.

The speculators can now drive out into the country, clear off another orange orchard, cut it up into lots, and begin another intensive sales campaign to waylay that money from east of the Mississippi.

When money comes from the east to invest in Los Angeles lots rather than in buildings or business, it indicates that the returns to speculation are greater than to industry.

The speculator is interested solely in boosting the price of land. The manufacturer seeks a cheap site. Every dollar saved in securing the site means a larger plant and more employment. Every dollar made by land speculators means increased unemployment.

Query: Which is the better for a community, speculation or industry?

A BRITISH VIEW

"Whether taxation is a burden on industry depends upon the way the taxation is raised, and upon the purposes to which the revenue is devoted. A Chancellor of the Exchequer in laying taxes must always look to the probable effect upon industry. It is from industry alone that wealth is derived, and it would be suicidal to impair the productive power of the nation. Mr. Churchill's new taxes have all had the effect of imposing additional burdens upon trade. His petrol tax, for instance, is a tax on production. The appropriation by the land owners of the social value of land is a very heavy burden on industry.

"The Labor Party would certainly put an end to the scandal of the social increment of land values going into the pockets of the landowners. It is amazing that the public should have so long tolerated this robbery of the community.—Philip Snowden, Chancellor of the Exchequer, in a speech just before the election.

It is hard to be interested in politics and also disinterested.—*Norfolk Virginia Pilot*.

Strange! Day breaks but never falls, while night falls but never breaks.—*Glasgow Eastern Standard*.

England has abolished the tax on tea, but it's too late now. Boston is set in her ways.—*Los Angeles Times*.

This country will be in a terrible fix if the Mediterranean fruit fly attacks the political plum crop.—*Virginia Pilot*.

Heaven knows best, but it would be nice if some of these imported insect pests liked dandelions.—*Pasadena Post*.

Although many people think the tariff is composed of gold bricks, it is usually built by log-rolling.—*Virginia Pilot*.

New Yorkers killed one another in a stampede to get out of the rain. How that town hates water.—*Publishers Syndicate*.

A New York taxicab driver has been fined \$50 for using language that is unbecoming off the stage.—*Philadelphia Inquirer*.

Heredity is a great influence. The harder Dad's nose is pressed on the grindstone, the more the kids' noses turn up.—*Waco News Tribune*.

Remember when father used to swing Indian Clubs and raise dumbbells? Well, he has quit swinging Indian Clubs.—*American Lumberman (Chicago)*.

A man who was given up by the doctors when he was fifty has just died at the age of ninety-six. Doctors are usually right in the end.—*London Passing Show*.

When an art expert can't tell a copy of an old master from the original, a simple layman wonders why the copy isn't worth as much as the original.—*Southern Lumberman*.

"Congress's Problem," says a speaker, in the *Congressional Record*, "is to prevent the extermination of the American farmer." Congress will always need a few farmers, as an issue.—*Detroit News*.

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WHAT MAKES A JOB?

"The world does not owe a man a living," says Owen D. Young, chairman of the reparations commission, "but business, if it is to fulfil its ideal, owes a man an opportunity to earn a living."

Daniel Willard, president of the Baltimore and Ohio Railroad, concedes that under any economic system worthy of the name, a man should have an opportunity of earning a living, but he does not believe that the whole responsibility rests upon business. On the contrary, he insists that it rests upon society as a whole.

In this Mr. Willard is right. Business is only a part of society, and is subject to the conditions prescribed for it by the sum total of the social body. As one of the chief groups business can do much toward shaping social policies, and to that extent can aid in realizing Mr. Young's hopes. But this aid will come largely through general action, rather than through business itself.

The relation of business to unemployment is the relation of supply to demand. First comes the demand for goods. Business meets or satisfies the demand. More demand, more goods. In other words, the consumer employs business.

Business in order to function must employ labor. The more consumption, the more business. The more business, the more jobs. The more jobs, the less unemployment. An unemployed man is not an effective consumer. Hence, he limits business, and business lays off labor.

It would seem then that all that is necessary to solve the problem of unemployment is to set men to work. For when they are at work, they become consumers, consumers demand goods, goods are produced by business, and business must have labor. Nothing could be simpler.

But somehow it does not work. Why? Because society, in making rules or laws for the control of individuals and groups, has granted privileges to some by means of which they can levy a toll upon others without rendering an equivalent return.

Thus there exists two legal forms of investment. One is legitimate capital, such as the tools and materials employed in farming, manufacturing,

merchandising, and the various forms of business.

The other form of investment consists of a legal right of ownership—as a franchise—that gives to an individual or group the exclusive right or privilege of doing a specified thing.

This right may be a grant from government to string electric light or telephone wires, lay gas or water pipes, operate street cars or a railroad, or own and control land.

The excuse for granting these privileges is that the public may be better served. To see that better service is forthcoming, rates are fixed by government, and commissions are established to compel performance.

This is true of all legal privileges except the right of land ownership. In great emergencies, such as war or other appalling disaster, charges or rents have been temporarily limited by government. But the common rule has been to let the holder of a deed use the land or not, and to fix his own charges.

In a growing society, with increasing services on the part of government, real capital—such as tools and materials—does not increase in value; and the owner can profit only by using them—which means by employing labor.

On the other hand, titles to land, which have been established by law for the better use of land, do grow in value merely by increase in population, and better government service. This gain can be enjoyed by the holder of the title without using the land, and without employing labor.

Here is the point at which unemployment begins. Business that consists of rendering service and satisfying wants does so only by employing labor. This kind of business can never produce unemployment.

"Business" that consists in holding land idle for speculation—while real business serves society and makes possible the profit of the speculator—produces no wealth, and employs no labor.

Government tries to limit the charges of gas companies to service rendered. Government permits the land speculator to hold his land idle, and to charge all he can get. Meanwhile labor is idle.

As a step toward solving the problem of unemployment, what would you say to a proposal to shift the burdensome taxes from farming and industry—which employ labor and produce wealth—to land speculators—who employ no labor and produce no wealth?

Society can meet Mr. Willard's demand by easing the tax burdens on the employing industries, and at the same time increasing the penalties on speculation, thus enabling Mr. Young's business enterprises to give every man an opportunity to earn a living.