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Tax Relief for Farmers vs. Tax Relief for Real Estate

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Despite prevailing misconceptions, it is a fact that to tax community-made land values rather than labor and thrift, would in general, give relief to those farmers who most need relief. It is not the wealthy owners of prairie land well situated on a concrete highway and close to a railroad station, whether they direct their own operations or live off of the rents paid by tenants, who most need help.

The farmers who need help most (leaving out of consideration, until later in our discussion, tenant farmers and farms so heavily mortgaged as to be almost in the tenant class) are those whose farms yield almost no economic rent. They have very little bare-land value, and would therefore pay almost no tax, if only the community-produced value of land were taxed to meet public needs.

The bare-land value of a farm is what would be left after subtracting the value of buildings, of fruit trees, of fences, installed drainage, irrigation grading and ditches, growing crops, tools, and machinery, horses and cattle, and fertility, in so far as it has been built up or maintained by fertilization and careful cultivation.

A tax on the bare-land value of a farm would therefore be, really, a tax on the "run-down" value of the land, after the value of all the so-called improvements had been subtracted. Where such "run-down" value is zero, a tax on the bare-land value of the farm, no matter how high the rate of taxation, would be a zero tax.

If we really want to help bonafide farmers as such, including tenant farmers, and are not bound

and determined to encourage land speculators and land speculation, we shall certainly not "relieve" of taxation all real estate. Instead, we shall relieve only improvements, and shall insist on keeping up taxes on community-produced land values.

In order to make clear the reasons for such a policy it is necessary that we distinguish between the conditions determining the value of all produced capital, including real estate improvements, and those determining the value of land. The value of land has no relation to any cost of production, since the land was not humanly produced and is not reproducible. The would-be buyer of land asks only how much net return he is likely to be able to make from it. Such an expected net yield is then capitalized at the prevailing rate of interest. However much the community may grow, capital cannot rise in value as and because the community grows and develops, and in proportion as roads, subways, railroads, schools, etc., are built around, through and in it. A business block in the center of a large city is valuable (bare-land value), not because of the activities of those who own that particular piece of land, but chiefly because of the way in which others settle about it. The development of the enviroing areas enables the owner of that block to enjoy larger rents, and the possibility of enjoying these rents gives the privilege of ownership value and makes the land sell for a high price. Individuals create the value of their capital by saving and constructing the capital. Nature and society create the value of land.

To take taxes off of real estate improvements

increases the reward of individual labor and thrift. But to take taxes off of land lets men hold it out of use, for speculation, with no penalty. Relieving of taxation community-produced site values (land values), as demanded by advocates of "tax relief for real estate," would be a long step in the direction of reducing the common people to hopeless tenancy. For, as we have just stated, such a policy favors speculation in land, which holds land vacant and out of use. This makes available land for homes, for business and for farms, scarce. Land tends to be high in price, and the less it is taxed the higher its price. This makes the purchase of farms and homes difficult for the poor except with the aid of heavy mortgages which leave the purchasers often hopelessly in debt. And in the cities it crowds men, women and children into slums, and deprives children of light and air and playground space. To take taxes off of the community-produced site value of land and put them on incomes earned by work (salaries, the wages of skilled workmen, etc.) and on the few luxuries of the poor (e. g., movies and soft drinks) means expensive land.

On propositions which farmers do not, as yet, understand, and against which large numbers of them are still prejudiced, so-called farm leaders are apt to be of little help. Like the "leaders" of other groups, they are afraid really to lead, lest they lose their popularity and their "leadership," but content themselves instead with eloquent repetitions of what their constituents already believe. Thus, the farmers enjoy too little chance of having placed clearly before them facts most vitally important for the future of agricultural opportunity and for the preservation of the bases of American democracy.

If tenancy, heavy mortgage indebtedness, bankruptcy and foreclosures and other related evils are the lot of many American farmers in the decades to come, surely those farm "leaders" and "educators" who do not understand the economic facts, or who dare not sponsor their frank presentation, cannot be held entirely without responsibility. High land values are not to be desired. Rather are they an economic and a social calamity.

Do we wish for America a Europeanized laboring class in both city and country, without land and without hope? This is the direction in which we shall travel if we allow ourselves to be led by those who are clamoring for "tax relief for real estate."

IF THEY ONLY KNEW

If working farmers, merchants, and manufacturers were to become as class conscious and intelligent regarding taxation as are the big realtors, there would be no trouble in securing wise changes in our tax laws—Howard M. Holmes.

LOGIC AND EXAMPLE

Perhaps some real estate brethren who are determined to reduce taxes on real estate in spite of logic may be moved by example. Actual experience is reassuring as a test of theories. The untaxing of buildings and other improvements in Transvaal towns in South Africa began in 1916. The experiment has been so successful that the towns have issued booklets setting forth the facts to business men and settlers.

These official statements have this to say about Johannesburg, the largest city:

The principles of municipal rating (English for local taxes) permanently adopted by the Johannesburg City Council constitute an important factor in industrial economics. Rates (local taxes) are levied on official valuation of the site only, and not on the value of improvements; and it is recognized that the official valuation must not exceed the value of the site in the open market. Therefore, through this principle, industries are encouraged and are not burdened with rates on costly buildings, smoke-stacks and machinery.

Of Pretoria, the capital, the report says:

The present assessment rate is based on the site value of the land only and is 9d. in the £ (18 cents on five dollars). No rates are charged on the value of buildings or improvements. Therefore the manufacturer who selects Pretoria as the center of his operations may expect to receive every encouragement.

Regarding Benoni we are informed:

The adoption by the Council of the principle of "site valuation" only reacts beneficially on the development of the town and industries. There is no restraint on those desirous of improving either homes or factories.

TAX FACTS has repeatedly said that if California were to adopt the principle of untaxing improvements and personal property, the Chamber of Commerce, the All-Year Club, and the Realty Boards would leave nothing undone to make the fact known to all the world.

Realtors have allowed themselves to become frightened, not to say panicky, by the wails of land speculators who were caught in the slump, and have set out to do the most foolish thing they could do, that is, reduce taxes on land values, and increase them on industry. It will be well for them to take thought as to their course, before they do the State and themselves irreparable harm.

REALTORS AND UNEMPLOYMENT

The National Real Estate Journal, June 23, contained two suggestive articles, which when taken together may arouse thought. One article was called "Farm Homes Should Solve Unemployment," by W. H. Daum, President of the California Real Estate Association.

"Five and ten-acre farm tracts, diversified, irrigated, with twice yearly crops, I believe," says Mr. Daum, "offer the final and proper solution to the unemployment problem in many large cities

of America. The industrial worker who now finds only seasonal employment would be assured of year around work and sufficient income for himself and family."

The second article in the National Real Estate Journal is entitled "Money Made in Real Estate," with a sub-heading: "More Examples From the National Association Files."

The first example is 200 acres on Chesapeake Bay, bought July, 1929, for \$22,000, and sold, February, 1930, for \$45,000.

A lot 25x140, Oklahoma City, bought in December, 1928, for \$30,000, sold in January, 1930, for \$57,500.

Lot 50x150, in Detroit, bought in 1914 for \$24,750. Now occupied by part of General Motors Building, and valued at \$1,980,000.

Vacant lot 50x150, in Cincinnati, bought for \$4,800 in 1925. Sold in 1929 for \$14,800.

What with President Hoover, Secretary Hyde, and chairman Legge appealing to the farmers to raise less produce; and President Daum of the California Real Estate Association, and his fellow land speculators urging the unemployed to buy their small farms, while the National Real Estate Journal cites the "money made in real state," is it any wonder that Will Rogers complains that there are too many funny men.

AS IT LOOKS IN MARYLAND

"Associated with the matter discussed in the last paragraph is the matter of reajusting the tax burden in such a way as to afford some relief to agriculture—particularly in the present depressed state of the farming industry throughout the length and breadth of this land. We have not the means at our command to study out the approximate method of affording relief, so far as changes in the tax laws of a State can do so, even if we thought it wise to complicate the systematizing and clarifying of the tax laws by introducing so intricate and debateable a problem.

"Of one thing we are certain—namely, that no relief to the farmer can result from imposing tax burdens on industry and commerce which would tend to drive capital from the State and to throttle industry and commerce. In matters of taxation it is peculiarly true that "no man liveth to himself and no man dieth to himself"; and to impose any burden on business, which would tend to drive capital from the State and to reduce the population which depend for their sustenance upon our farmers' products, or to refrain from amending any existing tax laws which have that effect, is the reverse of kindness to the farmer."—*Report of the Maryland Tax Revision Commission, Dec. 1, 1928.*

THE PRICE OF A JOB

IS IT SAFE TO WORK? By Edison Bowers. Published by Houghton, Mifflin Company for the Pollak Foundation for Economic Research. 1930. Price \$2.50.

One might think in view of the vast number of unemployed, and the difficulty of securing a job that the burden laid on the backs of labor was heavy enough without adding to it the awful toll of preventable accidents. The author, associated with the department of economics of the State University of Ohio, has made an exhaustive inquiry into industrial accidents in the United States, and possible remedies.

An estimated yearly list of 3,000,000 accidents, 25,000 fatal, should spur students in quest of a solution. Among other good influences to the desired end, it might be suggested that a sufficient demand for labor, so that the worker would not have to accept the first job offered, regardless of conditions, would help.

The love of money is also the root of all industry.—*Publishers Syndicate.*

The trouble with love at first sight is second sight.—*New York Evening Post.*

What seems to be most needed in the modern home is the family.—*Tampa Times.*

In the good old days, the man who saved money was a miser. Now, he's a wonder.—*Louisville Times.*

There seems to be general agreement that religion in politics is wrong if it helps the other side.—*Sumter (S. C.) Item.*

Discretion is the quality that prompts a missionary to burn the newspapers from back home.—*Elizabeth Journal.*

Chinese are queer. They pay for their own wars, and don't even get mad at America about it.—*Beaumont Enterprise.*

We shudder to think what the situation would be if women hadn't been permitted to purify politics.—*Manila Bulletin.*

Speaking of plastic surgery, isn't there some way to transfer bone from a statesman's head to his back.—*Brooklyn Times.*

If the pedestrian can only survive until airplanes have superseded automobiles, he may be able to enjoy life a little.—*Albany News.*

"The modern wife goes motoring while her husband plays golf," says a modern magistrate. Adam delves and Eve spins.—*The Humorist.*

"Men's shoulders are becoming broader," says a tailor. This is very fortunate, in view of the increasing burden of taxation.—*The Humorist.*

New York columnist says in another hundred years Americans will have forgotten how to walk. But their knowledge of jumping will make up for it.—*Florida Times Union.*

It is not the wickedness of predatory wealth, but the weakness of progressive economics which keeps special privilege in the saddle in the United States.—*The People's Lobby.*

According to Dorothy Dix, "no knowledge we ever acquire is so important as a knowledge of what to say and how to say it." Except, perhaps, a knowledge of what not to say and when not to say it.—*Weston (Ore.) Leader.*

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HIGH WAGES OR LOW PRICES?

President William Green of the American Federation of Labor, in a statement on unemployment, offers a suggestion for improving conditions. Industry has closed down, he says, and men are idle, because there is no market for goods.

The great undeveloped market is to be found among the workers of this country. Over 7,000,000 families have no autos; 20,000,000 have no adequate radios; 4,000,000 have no bath tubs; 13,000,000 no telephones; 3,000,000 no kitchen sinks with running water; 5,000,000 families live below the minimum standard of health and efficiency.

Pay the wage earners in these families more, says Mr. Green, and they will start the wheels of industry. Mr. Green has put his finger on the weak spot in the economic problem, but has he clearly interpreted its meaning?

Increasing the buying power of the mass of the people would indeed start industry, but merely paying some workers more wages, if those higher wages are added to prices, may not increase buying power. That is the error that was committed by the fiat money faddists.

The wage of every worker should be equal to what he produces. If it be less, he is deprived of his own; if it be more than he produces it must be at the expense of others.

Henry Ford, by paying more than the market rate of wages, has the pick of the market. Careful selection, and judicious hiring and firing fills his factories with more efficient workers, and the labor cost per unit of product is less. Other producers, by closer cooperation with the men, and increasing pay, stimulate effort, so that the labor cost has not been increased.

In neither of these cases, however, has there been any advance toward the solution of the overstocked market. If the buying power of the men is greater, so has their efficiency increased the amount of goods on the market; and the relation between demand and supply remains as before.

Buying power is a relative term. It may be increased by raising wages, or by lowering prices. Henry Ford, by securing the best workers through his wage premium, has not solved the

labor problem. He has obtained a greater product from these better workers, and has had the prescience to divide the gain between his employes in higher wages, and the consumers in lower prices.

This, however, does not relieve the stress of the less gifted employes who cannot handle the mass production idea, or the poorer workers who cannot respond to the new demand. Solution of the social problem is not a matter of saving the brightest and most talented; but of providing opportunities for the duller and less gifted. The old saying that there is always room at the top does not serve in this instance. We must have room at the bottom where the mass of the people are.

Men do not work, primarily, for wages, but for what wages will buy. It is immaterial whether wages are high or low nominally, so long as prices correspond. It were better, indeed, in the broad view that wages should remain stationary, and that prices should fall.

If production be increased through an invention or discovery, the increase can be given to the workers in higher wages, or to the consumers in lower prices. Should wages be raised the benefits are largely confined to the immediate employes. Whereas, a reduction in prices benefits all society including the employes themselves.

Since each industry furnishes raw materials for other industries, or is the basis for other occupations, a reduction in the price of its product is a universal benefit and stimulant to all others. Competition will keep prices down. The same competition tends to lower wages that are abnormally high.

When organized labor demands higher wages it unites the forces within the organization, but it also consolidates in opposition all that are outside. On the contrary, should it demand cheaper goods it would tend to enlist the support of all consumers, which means ultimately society as a whole.

In addition to this, if efforts were directed to lowering prices, without reducing wages, all waste would be a matter of public concern, and questions of efficiency would be of universal interest, binding into one complete whole all productive forces.

Goods are unconsumed, and mills are idle because prices are too high. Prices are too high because too many monopolies and special privileges have been permitted by law to levy toll on the process of production.

These legal privileges that burden industry are kept alive by their exemption from taxation, which in consequence is borne by production and appears in higher prices. Remove taxes from business and prices will fall, consumption will increase, industry will speed up, and unemployment will cease.