

TAX FACTS

Published in
the interest of

SOUND ECONOMICS
and
AMERICAN IDEALS

Vol. IX.

Los Angeles, California, June, 1930

No. 2

The Nature of Real Estate

By Jackson H. Ralston

The Realtors of California assure us that real estate bears too heavy a burden of taxation, and that new taxes should be levied upon other objects. Coming as this statement does from men of presumed intelligence, it requires careful if not critical examination, none the less so because of the very natural, if not always perceived, bias of self-interest, which perchance influences the makers of the statement.

Let us in the beginning of even a brief consideration of the assertion consider just what is meant by "real estate."

The lawyer—not the economist—originated the term. He saw that houses were attached to the land with a certain degree of fixity, and that it would be entirely natural that the person who wished to buy one should purchase the other. To express superficial conditions, he classed both under one title. This was and is ordinarily sufficient for purposes of deed or descent. The lawyer was ignorant of or indifferent to the fact that economically their value was derived from different sources and that so far as taxation was concerned its effect upon the two would be entirely different. When, however, the realtor lumps them together, he is committing a grave economic error. Examine this for a moment.

The value of land is the result of the growth of the community and its perfection in government. No one man can say that he has created this value. Every person, even the babe a day old, enhances it. Every newcomer is a contributor. The workmen on the street help to make it. Every factory builds it up. Every useful pursuit magnifies it.

How different it is with houses or other constructions built upon it. All these are in essence personal property, changed in location and application, but always and to the end economically taxable personal property. Our tax books properly though imperfectly differentiate improvements from land.

To construct a house there is brought together a great variety of personal property, which prop-

erty, joined and placed upon the ground, creates a human habitation. A fire may destroy it in an hour, time and decay may wipe it out in twenty or thirty years or more; its end is inevitable, but the land remains. It is simply personal property, for a time attached to the land. And its value, different from that of land, depends upon the human labor directly involved in its production.

Not only is the house different in its origin and nature from the land, but also it is different in the effect of taxation upon it. In this respect it continues to be nothing other than a special form of personal property. Like other forms of such property, taxation and the distribution of the proceeds of taxation give it no value. Its worth is never increased by the expenditure of a single cent by the community. Its construction is hampered by taxes and hence fewer and inferior houses are constructed. Just as taxes have interfered with the production and sale of liquor—intentionally in this case—so also unintentionally is the production of houses interfered with by taxes upon them.

How different is the result of taxes upon land values! When these are levied the community takes to itself a part of what the community has created—not the creation of any one man. Industry is not interfered with. The larger the amount of taxes upon land, the more willingly will the landowner open it up to industry. Thus taxation upon land values furthers the development of the community. Taxation increases the effective supply of land, while we find when upon houses it diminishes them in number and value. Thus we say that economically the term "real estate" unites two diametrically opposite things.

Is the realtor right when he says that real estate is overtaxed? The answer must be Yes and No.

As to buildings, any tax is too much, for all such taxes oppress industry. The tax on land, as we have said, opens up new land for development and use. It can scarcely be called too much unless it takes from the landholder all or nearly all the special advantages the community now gives him.

Is this latter the case now or likely to be in the near future? The answer must be No, when there is continually dinned in our ears or spread before our eyes accounts of the enormous wealth gained or obtainable from the rapid growth of land values in California, a wealth to which we all contribute. Do not forget also to consider the enormous value of our gas and oil lands now largely escaping just taxation. So long as this can be the case the part of real estate we call land values is paying less than its due share.

The realtor goes further and asks not alone relief for "real estate," but that a new income tax or extended sales taxes shall be imposed. The arguments against added income taxes are too extended to be entered into now. Sales taxes are a direct imposition upon the poor consumer who will pay on his existence while his rich neighbor will be slightly affected upon his superfluities. The sales tax upon gasoline is bad enough when one considers that its proceeds have been used to further an enormous expansion of the land values which should have borne the burden. Any further extension of sales taxation would be a new iniquity.

Let us join with the realtor as far as he is willing to go, to do away with taxation upon improvements. Let us fight him so far as he seeks to remove the weight of taxation upon land.

If he is willing to assist his poorer neighbor, by removing the tax upon his house, we are with the Realtor, but we will not follow any suggestion of a further tax upon the necessities of life, particularly when land speculation has so largely contributed to present distresses.

But we suspect all the Realtor desires is to further land speculation by making it more profitable through lighter taxation upon it.

THEN AND NOW

In 1879 Mr. Graves bought for I. N. Van Nuys from Judge Sepulveda the southwest corner of Seventh and Spring Streets for \$500—the same lot that now if it stood vacant would bring a million. He subdivided and sold for Mrs. Arcadia B. de Baker land on Main Street along the neighborhood of Fourth at \$100 a foot. These statistics are amazing in the light of present-day facts. They will be more amazing a century or two centuries from now.—*John Steven McGroarty, review of Jackson A. Graves' Autobiography, in Los Angeles Times.*

OUR GREATEST FAILURE

Why is the statesman such a failure in the field of statecraft, when the mechanic is so successful in the field of handicraft? Call upon an artisan for a tool or implement of any kind, and he will supply a perfect working instrument. If the demand be for an automobile, airplane, locomotive or steamship, men associated for the purpose will supply perfect examples of the kind.

But call upon Congress, or a legislature, or any other governmental agency for a law or rule to establish justice and tranquility, and what have we? Search the country over, nay, the whole world, and where can be found an administration of justice that can be compared in the shaping of means to ends that is to be found in the work of the artisan?

Sociologists impeach our economic order because of the persistence of poverty in the midst of plenty; because want and unemployment exist in a state where the very needs of man are supplied by labor.

It is a grave indictment. The complaint of men of affairs is not that we cannot build houses, raise food, or make clothing; rather it is that we produce too many of these things. Men are idle they say, because more goods have been produced than can be sold, and production must be shut down till the surplus has been worked off.

If production be reduced to its simplest terms, we could not imagine a shoemaker wanting a coat and being idle, if he could exchange shoes with the tailor for a coat, nor an idle tailor wanting shoes when they could be had in exchange for a coat.

Yet, if the man who had been permitted by the statesman to build a toll road between the shoemaker and the tailor, which enabled him to take shoes from the shoemaker and coats from the tailor for using the toll road, it may be seen that the toll collector might have more shoes and coats than he could sell, while the producers would have nothing to give in exchange for them.

What is true of the toll road owner is true of the land speculator to whom government gives the land upon which the shoemaker and the tailor ply their trades. He also takes his toll in shoes and coats till he has more than he can use, while the shoemaker and the tailor must lay off till the surplus has been consumed.

Why is it, in view of the achievements of material and speculative science, that statesmen should be so barren-minded? When wealth has been produced, why should the statesman presume to distribute it on any other basis than that of value for value? Why should franchise holders be permitted to charge all the traffic will bear?

Why should one favored producer be permitted to add the amount of an arbitrary protective tariff to the natural price of his goods? Why should the land speculator be empowered to exact an ever increasing proportion of the product of labor for the mere permission to use the natural elements?

Competition and emulation among artizans have brought them to the present high efficiency. By what means shall the statesman be raised to the requirements of his office. Clearly we shall have no permanent prosperity, no exchange of goods on the basis of value for value, until the lawmaker understands economic forces as the artizan knows the elements in which he works.

The statesman who would tax alike the workman and the land speculator is on a par with the blacksmith who would attempt to weld wood and iron. The laws of nature must be observed by the statesman as well as by the artizan, if we are to have justice and peace in our social order.

SPECULATION MADE EASY

In the days of the Louisiana Lottery, when tickets for the grand prize at the semi-annual drawing were eight dollars, care was taken of the poorer dupes by dividing the tickets into eights, and selling each part for one dollar.

John J. Raskob, of political fiasco fame, proposed a similar plan to enable the man of small means to enter Wall Street, through a stock investment trust with small shares. Now we have the real estate trust, with small shares that admits investors too poor to participate directly in the gentle sport of gambling in land.

Two advantages are to be found in the realty trust, according to Phil Norton, executive vice-president of Hugh Evans & Company, Los Angeles, smallness of unit investment, and diversification of risk. The man with only a few hundred dollars, as Mr. Norton explains, puts all his money in one piece of land, and that lot may not increase in value fast enough to outrun taxes and interest—even when other lands are mounting by leaps and bounds.

The other advantage noted by Mr. Norton, is that the realty trust can buy the valuable corners that make the phenomenal increases of one hundred to two hundred per cent a year. What had the Louisiana Lottery to offer the poor in comparison with the realty trust: safety of diversification, and the profit of the grand prizes?

Granted that all Mr. Norton says is true, what of the other side? If the investor gains this easy money, it will be because the realty trust sells the land for more than it paid. That means that future labor and capital must pay correspondingly for the privilege of doing business.

AN ECONOMIC EXPERIMENT

ENCLAVES OF ECONOMIC RENT For the Year 1927. Published by Fiske Warren, Harvard, Mass., 1928. Price 25 cents.

This is the eighth annual volume, the series beginning with 1921, devoted to the nature and experience of certain economic groups in the United States and other countries. The actuating motive of these groups or enclaves is the socialization of economic rent through the taxation of land values. The book contains, beside a history and description of each enclave, a compendium of the legal documents, constitution, charter, etc., to enable those interested to obtain a full understanding.

A curious feature of these publications is that when published the price is \$4.00, with a decrease of 25 cents each month till the price reaches 25 cents. No one wishing to keep abreast of political and economic progress can afford to be without this book. Fiske Warren is a large paper manufacturer and man of affairs, with a strong penchant for social experiment. It has been for the purpose of testing his economic theories that he has established several of the enclaves described in the above named volume.

Sometimes when a man is in the public eye he's just a cinder.—*Philadelphia Inquirer*.

When the Yellow Peril turns Red, we may expect colorful news.—*Brunswick Pilot*.

The United States may be dry today, but it looks damp to Morrow.—*Wichita Eagle*.

Among our statutes, the Prohibition law is getting most of the breaks.—*Brunswick Pilot*.

Undeniably, the Eastern industrialists in Congress have a keen sense of duty.—*Arkansas Gazette*.

India's non-violent campaign reminds us of some of our non-political commissions.—*Brunswick Pilot*.

The only fault in Sherman's definition of war is that it left no adequate term for the aftermath.—*Schenectady Gazette*.

A metropolitan area is what a city gets when its chamber of commerce isn't satisfied with the census showing.—*San Diego Union*.

If burning credit gas in installment cars over bonded roads is prosperity, this country is still pretty doggone prosperous.—*Thomaston Times*.

Having tried everything else without success, it's a wonder to us the Democratic party doesn't make a bid for parity.—*Philadelphia Inquirer*.

The War Department has secret plans to keep out invading troops, but suppose they were disguised as rum-runners.—*Publishers Syndicate*.

Cities showing losses of population should claim the census doesn't mean a thing, as the dregs refused to be counted.—*New York Evening World*.

A writer complains that nowadays popular tunes get on the wireless, on the gramophone, and on the talkies. And, he might have added, on the nerves.—*The Humorist*.

"The pedestrian should have the right of way," says a writer. He has. All traffic moves aside at the first clang of the ambulance gong.—*The Passing Show (London)*.

TAX FACTS

Published Monthly

By The Tax Relief Association of California
412 American Bank Building, Los Angeles, Calif.
Phone: Tucker 2417

EDITORSTOUGHTON COOLEY

Subscription per year 50 cents

Vol. IX. Los Angeles, Cal., June, 1930 No. 2

THE UNEMPLOYED

"It is ridiculous," said Owen D. Young, financier and author of the Young reparations plan, to the members of the National Electric Light Association convention at San Francisco, "to speak of unemployment as a necessary condition of human society. It is nothing more than a maladjustment of its machinery."

In a similar vein he had said on a previous occasion: "The world does not owe a man a living, but business, if it is to fulfill its ideal, owes a man an opportunity to earn a living."

Mr. Young attacks the question of unemployment as he did the reparations problem. Some persons may doubt whether the responsibility should rest upon business, the press, the university, or the church; but opportunity to earn a living a man must have, if he is not to descend again into servitude.

Since neither the statesman, the doctors of learning, the men of the quill, nor the shepherds of the fold have met the problem, Mr. Young—who is a business man with many accomplishments to his credit, may be excused for thinking that business is to succeed where the others have failed.

Nor is this thought unwarranted. If one man be exploited by another, the victim cannot be protected without interfering with the gain of the exploiter. Thus it becomes a question of who is to bell the cat. The politician dare not, he is seeking re-election; the schoolman is looking for endowments; the editor must hold his advertisers; while the minister listens to the pews.

May not Mr. Young's fellow associates be the very men to do the trick? Who in modern society is more daring and venturesome, more highly endowed with purposefulness, energy, and the all-resourcefulness of the business man? He has intelligence and imagination.

Business men too often have been content to get rich by setting up monopolies, or by allying themselves with the holders of legal privileges. But no man of spirit will play a predetermined game. That is an amusement of an effeminate king who sits in the box, while the beaters-up drive the game within reach of his gun. No real sport will bet on a marked card, or a pulled race.

The business man worthy of the name wants competitors who are free men. There is no thrill, when armed with legal privilege, however gotten, in beating an opponent, nor in being worsted by an adversary entrenched in monopolies.

Business, broadly speaking, consists in the cooperative effort of men to produce wealth and render service to satisfy human desires. It may be a few men with simple tools laying a wall; or a vast number operating a great factory. In any case it means the employment of men and the rendering of service.

Mr. Young has noted the short sighted policy of our isolationists in passing our monstrous tariff bill. Instead of making friends abroad, and providing a market for our agricultural surplus, it is irritating foreigners, and increasing our troubles at home.

In the complex economic conditions of today there are many maladjustments. There are men taking part in the gains of business who are not really entitled to what they receive. They are not true business men for the reason that they render no service, and they employ no labor.

When men bet on cards or races, there is no pretense that society is benefitted; it is merely excuse for sharpers to fleece simpletons. Speculating on the stock exchange, as distinguished from real investments often degenerates into plain gambling.

All these combined, however, amount to but a trifle when compared to the great game of land gambling. From the Atlantic to the Pacific, and from Canada to Mexico, men are holding land out of use, waiting for an opportunity to hold up the first business man who ventures to use it.

These land gamblers employ no labor, they produce no wealth, and they render society no service; yet they demand for the privilege of using their land such a price that the business man who puts labor and capital upon the land will be so handicapped that he may go broke under the strain.

Yet these land gamblers have raised a hue and cry throughout the country, and particularly in California, that they are overtaxed; they protest that more taxes must be laid on business. So great, indeed, has been the uproar that the assessor of Los Angeles county—the richest county in the State—has lopped off a million dollars in taxes this year.

Opportunity to work is tied up with business. As long as men use land for gambling, instead of for business, the unemployed are denied their natural right, and business lags.

Owen D. Young was right when he said unemployment was due to the maladjustment of society's machinery.