

TAX FACTS

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WE ENTER OUR TWELFTH YEAR

In May 1922, the Tax Relief Association undertook the publication of this little paper "in the interest of Sound Economics and American Ideals." In one sense, the name "Tax Facts" has been unfortunate. The name of the Association, itself, is a little misleading because it appears to stress the thought of relief to harrassed merchants, manufacturers and home owners and does not suggest adequately the more fundamental thought of economic reform which we have endeavored to present in these editorials.

During the past three or four years, many organizations have been formed in the interest of those who are wrestling with the tax problem, and a number of publications have been launched in the hope of casting a little light on this dark subject. It is natural that some who hear of this organization and its publication should mistake its real purpose and think of it as one more civic body interested in and endeavoring to "lighten the tax burden."

The full intent and purpose of this paper is far more fundamental than merely shifting taxes from pillar to post. The idea that we are trying to present is a philosophy of social life, a scientific treatment of social problems. We want you to be able to trace the connection, however obscure or roundabout it may seem, between taxation and the kidnapping of a little child. We want you to see the connection between taxes and poorhouses and prisons, not in respect to balancing the budget and providing funds for these institutions, but as a cause of their existence or non-existence. Until you see that our system of taxation is the means of adjusting our social relations, and that through them it filters down to our individual lives, you cannot hope to solve the tax problem.

In order to understand its true nature, we must see that the most important function of taxation is not to obtain revenue, but to balance the advantages derived from the use of good and poor land. By "good" and poor land, we do not mean merely fertile and sterile soil, but land that is productive or non-productive in centers of population, as well. The most valuable land in the United States was once used for the raising of cabbages; now, it is occupied by some of

the world's tallest buildings, and the production of wealth goes on on a much grander scale than in its cabbage-patch days.

We are dealing with the land problem first, last and all the time. No social problem can be solved until the land question is settled, for it is in the use of land for the production and distribution of wealth that men come together in groups and communities, that they learn to specialize and cooperate in labor. No movement for the betterment of society that does not recognize the land question can be of lasting benefit. That is why *Tax Facts* keeps on hammering away at fundamentals while politicians and statesmen tinker with palliative measures that can afford only temporary relief at best. Many of them aggravate the condition they are designed to alleviate.

We begin with this self-evident truth: the earth is the common heritage of all, and every child born into the world has an equal right with every other child to the use thereof. How such an adjustment can be made and economic justice established is not easy to see. Political economy, though it is not the dull and dismal science it has been painted, is, nevertheless, a science with rules and laws and principles that cannot be mastered in an hour. But is there anything difficult to understand in the proposition that the earth belongs to all men, and not to a privileged few? You can see that, can't you? That is all we ask you to accept at the start, then if you will keep on reading *Tax Facts*, we will try to show you the significance of this thought and how it forms the foundation of our whole social philosophy.

Industrious men and women, for instance, live economically, sometimes frugally, all their lives and save their hard-earned dollars that they may not come to want in their old age. Then, banks close; depressions come; investments prove worthless. The savings of a lifetime are swept away. Nothing is left but the mockery of the bread line, the tragedy of the poorhouse. Would a change in our land policy alter this situation? Certainly it would if it were the right change.

A great war has been terminated, and the youths that marched so gallantly to the front

are drifting back to the country whose cause they defended. Their old jobs are gone and there are no new ones. Will a grateful country care for them and theirs with pensions that increase and multiply by millions and become an ever-growing burden for each successive generation to bear? Would a tax on land values, instead of on labor products, make it possible for the returning soldier to step back into civil life with an opportunity to earn a living according to his ability, and without casting a shadow on his self-respect by offering him a pension or any other government handout? Yes, it would. And so it goes on, the golden thread that runs through the whole fabric of society.

We believe that no individual or group of individuals has the moral right to deny others the use of the earth by monopolizing land, or to appropriate to themselves land values that are due to the presence of population. Our present land policy permits individuals to buy, sell and speculate in land as if they had made it and could claim exclusive ownership by right of production. We are trying to make clear to you the difference between land and the articles that men make—food, clothing, houses, ships, golf clubs—everything, in fact, that would not have existed if man had not been here. These are the things we refer to when we talk about labor products, or sum up in the term production.

Everyone knows that there is a difference between land and the products of labor, but the majority of people don't see the significance of the fact. It is very difficult for a person who has believed all his life that land should be bought and owned exactly like a house or a suit of clothes or a cow to understand that any other system could be just or advisable or necessary.

That is why *Tax Facts* wants you to see the necessity of changing your ideas regarding land monopoly and the speculation in land values. Until you do see that, it is hardly worthwhile to attempt any legislative measures that would go to the root of our economic difficulties and bring positive and permanent relief. Whenever an injustice has persisted for generations, it cannot be corrected without depriving some of privileges that they have wrongfully enjoyed. Naturally, they are going to howl about it. They are going to howl so loud and in such a manner that those who most need the change will believe the whole idea to be wrong and will work against their own interest to protect the special privilege that oppresses them.

No, injustice may be established and maintained through force at the hands of a few, but not justice. When you people understand the land problem, you will *want* to change our land policy. Until you do understand it and want the readjustment, it is useless to try to force it on you. Unfortunately, those who do understand it,

must suffer with the rest of you under the present system—that is life.

Whenever you people understand the need and the nature of this proposed change, The Tax Relief Association will be ready to help you with suggestions as to how it can be brought about. If you want the whole change made at once for quicker relief, we'll help you to do it. If you believe that much confusion and perhaps some temporary hardship would be avoided by a more gradual process, making a little change from year to year, we'll help you with *that*, too. When and by what legislative measures this change is to be made is entirely up to you folks. Thousands of us have been ready for this thing for years. You can't take us by surprise.

This readjustment must be effected through a change in our tax system, a change that may be expressed briefly in the principle to remove all taxes from labor products—man-made things—and levy one tax on the value of land regardless of improvements. Until this is done, we are simply wasting our time trying to correct conditions with measures that utterly ignore this foundation of our economic structure.

Remove all restrictions from trade. Give every man and woman a chance to use the earth without let or hindrance, without paying some one else for the privilege, then see whether or not there is need for price fixing, for restrictive labor laws, debt moratoriums, bonuses, old age pensions, inflated currencies, or any of the hundred and one measures prescribed for our economic ills.

We are not discouraged because we have made so little impression on you in eleven years. The philosophy of unselfishness, of kindness, of forgiveness, of the brotherhood of man, of which this is the practical application, has not made much of an impression on humanity in two thousand years. We hope to cut that time down a little. However that may be, it is our intention to keep the light burning that marks the exit so that you folks *can* get out of the woods any time you want to. We're not going to push you out, you'll have to go out under your own power. It can be done.

LISTENING IN

It is difficult for a monthly publication to comment on the course of the administration at Washington. Things there are moving so rapidly that even the daily papers find fresh material for morning and evening editions. Practically everything that is being proposed is put forward as a relief measure. Perhaps the best that we can do is to keep hammering away at the basic principles that govern our economic life in the hope that some day our readers—and millions of people who have never heard of *Tax Facts* will demand the change in our land system that will bring economic freedom.

THE FARM PROBLEM

E. B. SWINNEY

That our present system of taxation is one of the chief contributory causes of the existing economic paralysis is amply demonstrated from the following facts culled from the reports issued by the Department of Agriculture. The low assessments for purposes of taxation on valuable vacant land encourages speculation and monopoly in the resources of nature.

This being so, the high prices of farm products during the war caused an enormous inflation of land values. Farmers were glad to pay many times pre-war prices in anticipation of huge profits. Mortgages were easily secured in proportion to these inflated prices so that the mortgage debt increased from \$3,320,000,000 in 1919 to \$7,858,000,000 in 1920 after which it mounted more slowly until it reached the peak of \$9,469,000,000 in 1928.

When the price of farm products began to decline, the real trouble began. Banks by the thousands, other money lending institutions and individuals were left high and dry holding the bag of frozen assets. The poor farmers could not pay either the principle or interest on their mortgages, and since they comprise about 60% of the purchasing power of the country, it is easy to see why production slowed down, and millions of people in all lines of business were thrown out of work.

Unemployment was *not* the cause of the business depression, but rather, the business depression caused unemployment. The farmers were just as greedy for the unearned increment as any other land speculator, and this trouble would never have occurred under a system of taxation that made land speculation and monopoly unprofitable.

Doctor John Dewey, one of our foremost educators and philosophers, has this to say regarding the farm situation: "Any form of price fixing for farm products, or reduction of interest rates on farm mortgage and commercial debt, will tend to start another orgy of speculation in farm lands and defeat the avowed purpose of such farm relief legislation, unless all labor products are exempted from taxation and the revenue hitherto derived from such sources, obtained by taxing land values more heavily. This is the only practical method also, of insuring that writing down of the principal of farm debts, inures to the benefit of producing farmers, instead of farm land speculators. . . ."

"All relief and all construction credits will tend to increase still further the speculative selling price of farm and city lands. This must be prevented to avoid a repetition of our recent situation. It can be effectively prevented only by transferring taxes from improvements to land values."

AN APOLOGY

Mr. Ivan A. Thorson, head of the Organization of Real Estate Counsellors and Appraisers which bears his name, has called our attention to an error, for which we wish to apologize, in the issue of *Tax Facts* for January of this year. An editorial, "No Production Cost," credited Mr. Thorson with this statement: "The trouble is that in dealing with land we have failed to distinguish between cost and value. We have been measuring it like merchandise, assuming that the selling price has a fixed relation to the production cost."

Mr. Thorson, referring to this editorial, writes us: "You then proceed to assume that I mean by 'cost' the price paid for the lot by someone, etc. I do not blame you for making this assumption, as that is the erroneous assumption that is made by 99% of all real estate brokers. However, it is exactly the interpretation of 'cost' which I am trying to rectify. I endeavor to bring home to our good friends that land has no production cost, that originally it was a gift of nature, and was no doubt intended by our Creator that it should continue to be so regarded. However, someone appropriated it, and we are faced with an economic and social situation which is a fact and which we have to reckon with as such and make the most of."

We are glad that a man of Mr. Thorson's standing in the real estate world is trying to impress this thought on his brother realtors. It is an important point to be kept in mind when dealing with the land problem, and there is no reason why men handling real estate should want to dodge it. The real estate business, like many other enterprises has been in the doldrums for several years. If the realtors would support any measure that would make it unprofitable to speculate in land, so much vacant land would be thrown on the market, the real estate business would boom beyond their fondest hopes.

THE ARCHITECTS

During the three weeks exhibit of Southern California architects, contracts have been given for fourteen homes representing approximately \$60,000 in all. How much money has to be spent for land on which to build these homes, we are not told. Whatever it is, think how much more could be spent on the houses if this land price could be eliminated, how much more could go to labor and how much finer the homes could be if the owners were not obliged to pay some individuals for the right to build at all on this earth that was meant for everyone.

He isn't really a big-time crook unless you must let him alone to prevent the loss of public confidence.—*Medford Mail-Tribune*.

A scientist entertains an Oslo gathering with his theory that life on this planet began in hot water. We would seem ideally situated for a fresh start.—*Detroit News*.

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THAT NON-TAXPAYER

Southern California advertises itself as a winter playground and does much to encourage Easterners and Northerners to spend their winters here and escape the rigors of the colder climate. "But," say some of our property owners, "they stay here five or six months at a time, send their children to our schools, enjoy our parks and libraries, and they don't pay one cent in taxes."

Mr. A. H. Morosco, Tax Counsellor in Charge of Research, California Taxpayers' Association, has written an excellent article, "Who Pays the Taxes," for the May issue of *The Tax Digest*. "Taxation is the most critical problem facing California today. Public finance is not the concern of public officials alone. Business taxes are not of interest exclusively to firms and corporations. Rather all these problems and the problems to which they lead, are the joint concern and the common responsibility of all the people. . . . Taxes are passed on down to the end of the line to the consumer of the commodity, who is the ultimate taxpayer. Every business, every corporation selling goods or services, charges its tax burden against the consumer. . . . Taxes are in the rent of our homes, in the bread we eat, in the gasoline that keeps our cars going, and in the radio that entertains us in the evening. True, taxes are not specified in our bills from the landlord, the grocer, the butcher, the baker, the milkman, but they figure in the total just the same."

Mr. Morosco has given us the result of some of his research work bearing on this point, and his figures will be a great surprise to some of those property owners who consider their tax bills special badges of martyrdom. Mr. Morosco says: "The statement is frequently made, 'My interest in taxes and in governmental expenditures is not very keen, because, fortunately, I own no property and therefore I don't pay any taxes.' In order to disprove this statement, we have assumed the expenditures of an individual in California whose income is approximately \$150 a month. We have taken a widely published budget as to the logical expenditures for an individual with a fixed income of that amount. We have made two or three assumptions which are made necessary in seeking to arrive at a rough

estimate of the taxes paid in California by the man or woman who claims he or she pays no taxes."

It is not supposed that all people with an income of \$150 a month would spend their money in the same way, but Mr. Morosco's figures give an excellent estimate of what happens to us when the government collects its taxes. Mr. Morosco gives in detail the figures for the personal property tax on the automobile, \$18; gasoline tax, \$18 to the state, \$6 to the Federal government; 7½ percent direct tax on a \$20 yearly electric light bill would amount to \$1.50; \$1.50 for gas; \$1.53 to the street car company through the purchase of tokens; house rent, plus water tax, \$80; \$2000 life insurance policy, \$8.20; \$108 of his food bill is for commission fees, licenses, transportation taxes; tax on the clothing he buys, \$30; telephone, \$2.20; tobacco, \$30.80; moving picture tax, \$2.50; 25 cents on two decks of playing cards.

"The net result is that a man with an income of \$150 dollars a month, \$1,800 a year, expended in the fashion outlined by a satisfactory budget, will pay \$324.15 per year in indirect taxes under the 1931 tax schedule. This was materially increased as the result of the 1932 Federal Act. . . . It is a fair estimate that the average man who owns no property, who has an income of \$150 a month, is paying roughly \$30 a month —\$1 a day to support public expenditures."

With the exception of the \$80 in the yearly rent bill which helps to pay the landlord's tax, all these indirect taxes are paid by the home owner *in addition to the tax bill that he receives from the local tax collector*. The question is sometimes asked: "What would be the difference in my tax bill if the land value tax were substituted for the ability-to-pay system now in force?" If the home owner will take the dollar a day as a rough estimate of the indirect taxes that he pays without knowing it, and add it to his regular tax bill (subtracting the \$80 that the renter pays) he will have some idea of what he really pays in taxes every year. Land in California is assessed at half its value and is listed separately on the tax bill. If 5% is taken as a fair interest rate, your land value tax would be 5% of that capitalized value, and that would be *all* the tax that you would have to pay. That dollar a day in indirect taxes wouldn't exist.

We don't smoke tobacco, we don't carry any life insurance and we don't buy new clothes (think of an editor buying enough clothes to pay \$30 a year taxes on *that* item!) but using Mr. Morosco's figures to form a rough estimate, our yearly taxes, direct and indirect, must be somewhere around \$385 dollars, while under a land value tax, we would be paying about \$144. Probably this would be much less because under a land value tax the rental value of land would not be so high.