TAX FACTS

Published in the interest of SOUND ECONOMICS and AMERICAN IDEALS

VOL. 1 LOS ANGELES, AUGUST, 1922 NO. 4

THE PERSONAL PROPERTY TAX INIQUITY

By Lawson Purdy

President, Department, Taxes and Assessments, New York City, 1906-17

Fortunately for them, the people of New York and Pennsylvania never have known the full rigors of the personal property tax as it is embalmed in the Constitution of California adopted in 1879. In Pennsylvania they never had it. The nearest approach is a tax of four mills on certain forms of interest bearing debts.

In New York up to twenty years ago most forms of personal property were subject to taxation after deducting the debts of the owner. There never was a listing system. Assessors were obliged to estimate the taxable personal property after debt deduction for each person as best they might without any help from the taxpayer. In the small towns the assessors guessed with some knowledge of the affairs of their neighbors. In the large cities the assessors guessed with such assistance from general directories, telephone books, and like sources of information as they could find. They relied chiefly upon the location of the residence of the person to be assessed. All residing on one avenue were assessed $5,000 and all on another $25,000.

A friend of mine holding distinguished public office, who for some years had been assessed $5,000 was raised to $25,000 when he moved to Riverside Drive.

In most of the State of New York there was very little effort made to enforce the law. In the City of New York assessors are not elected. With the exception of the commissioners, who hold office at the pleasure of the Mayor, they are appointed pursuant to the merit system and can be removed only for cause. Certain men were assigned to search the records of all the

port. Thereafter all the executors of persons who had died during the year and, in addition, all their beneficiaries were assessed for the largest sum which by any chance they could have received.

The widows and orphans suffered for at least a year and sometimes longer. The rigor of the law was mitigated by the provision concerning debt, and the fact that the stock of corporations never was subject to taxation in New York as it is in California. With a tax rate of 2½% it sometimes happened that half the income, or more than half the income, of a widow was taken from her, and her trustee might be obliged to move his residence or relinquish his trust in order to save for her enough to live on.

A few years later some of the teeth were drawn from this miserable law by exempting mortgages forever, after they had paid one-half of one per cent tax once. This gave an opportunity for the estates of widows and orphans to be invested safely without a confiscation of the income. A few years ago an income tax was imposed on corporations of most kinds and on natural persons. Thereafter their personal property, except household goods and other tangibles, was exempted from further taxation.

The history of the tax provisions of the California Constitution throw a flood of light on the whole question of the taxation of the evidences of debt, and evidences of the ownership of an interest in property. In 1879 the Constitutional convention was imbued with a desire to put as much of the statutes of California in the Constitution

Constitution as the most horrible example known to him of the way in which a democracy may function.

That convention was determined that the usurer should not escape, especially the man who lent money to a land owner. It provided carefully that only the equity of a piece of land should be assessed to the owner and that the debt secured by mortgage should be assessed to the mortgagee at the place where the land was located; further, that any contract by which the land owner obligated himself to pay the tax on the mortgage debt should be void. The law was efficient; it worked. It required land owners to pay at least one-third of one per cent more for the money they borrowed than was paid by persons who owed debts that were not secured; and, in addition, the land owner had to pay something more for the hazard taken by the lender that the tax rates might rise.

After a time some ingenious person devised a contract separate and apart from the mortgage contract and so recited, by which for a consideration the borrower promised to pay the tax. The court upheld this form of contract, and thereafter, I am told that all law stationers carried the usual form of mortgage contract and another form of contract which was to be made on a different day separate and apart from the mortgage contract, by which the borrower should obligate himself to pay the tax. For many years what happened in California in this respect was one of the best arguments that I had for the abolition of any tax upon a mortgage.

Sometime not long prior to 1912 California seems to have had enough of that provision of 1879 regarding the taxation of mortgage debts, for in the Constitution before me, after providing that all property shall be taxed in proportion to its value, including moneys, credits, bonds, stocks and all other matters and things capable of private ownership, it is provided "that a mortgage, deed of trust, contract, or other obligation by which a debt is secured when land is pledged as security for the payment thereof, together with the money represented by such debt, shall not be considered property subject to taxation."

When any form of debt is taxed efficiently, as mortgage debts were taxed for a time in California, it is inevitable that that tax will be passed on to the borrower of the money.

California is almost the only illustration in the whole United States where there has such a tax. Ordinarily the law says that the person owing the debt shall declare it and pay a tax on it, and everyone knows but a small fraction of people do as the law says they should do. In this case the economic consequence of the law is partial; interest rates are raised somewhat; they do not rise to the full amount of the tax. The unlucky lender who gets caught pays three or four times what he should pay, and the fellows who are not caught get an additional rate of interest for the hazard they run.

In the State of New York I made a study nearly twenty years ago of interest rates in the farming counties of New York State compared with the counties in Massachusetts that bordered them. Economic conditions were almost identical. In Massachusetts mortgages were exempt from taxation; in New York they were subject to taxation, if caught, less the debts of the owner. There was a difference in the average rate of interest of about one-half of one per cent in favor of Massachusetts borrowers. I made a similar comparison for the City of New York and the City of Boston. In spite of the City of New York's being the great center of banking interest, rates were more favorable to the borrower in Boston. Again, Massachusetts had the good sense to abolish the usury law in respect of mortgage debts. People with poor security could borrow for 12% in Boston; they could not in New York because the usury law confiscated the loan if the lender got caught; and so he charged for the risk he ran in taking a devious course to cover up the usury.

Twenty-five or thirty years ago it was not uncommon to find counties in States with a listing law in which personal property paid from 30% to 40% of the taxes theoretically. I have no up-to-date figures for California but I find that in 1912 personal property amounted to from 10% to 15% of the total of real and personal. It is quite obvious that that is not the true relation between the two for in personal property by the Constitution of California is included evidences of the ownership of real property and evidences of debts secured by real property as well as all the livestock, merchandise, household goods, works of art, and other things that really are personal property.

In 1893 a commission appointed by Gov. McKinley found that according to the assessment roll all the cities of Ohio had been getting poorer for twenty years, especially in money and credits; hardly any left in

ory the words employed by the commission. They said the law was unequal and unjust; that it made Ohio a school of perjury; that it was demoralizing to the just and the unjust; imposed unjust burdens upon the farmer in the country, most of whose personal property was visible, and upon the unprotected widows and orphans.

What good can the thing do to anyone? If you do not want too many dogs you tax them. If you do not want bank notes you tax them out of existence, as the United States did during the Civil War. Every city wants personal property; why tax it? Every person who comes to Los Angeles increases the value of land by an average of $1,000, more or less. Let him bring his goods and chattels with him and encourage him to do business when he gets there, and the land owners themselves will benefit by making it pleasant for him.

VOTE "NO" ON PROPOSITION 27!

The secretary of state of the State of California has given the number 27 to the proposed constitutional amendment increasing the percentage of signatures required for initiative petitions on the subject of taxation from 8%—the present requirement—to 15%.

The organization which is promoting this latest attack upon democracy is the Anti-Single Tax League; but there are those who say that its proper name should be the Anti-Initiative and Referendum League; that its object is less to obstruct and oppose the Single Tax than to thrust the knife of reaction into the vitals of direct legislation—first by this prohibitive provision and later by concerted assaults on the whole structure of the Initiative, Referendum and Recall.

Back of the Anti-Single Tax League and practically all of the reactionary organizations which are seeking to undo the progressive legislation of the past twelve years in California is the so-called Better America Federation. Heavily financed by the mobilized forces of toryism of every description, and appealing to the greed, the lust of power, and the timidity of the conservative, the Better America Federation proclaims its purpose of barking "Back to the Republic," which, by the way, is the title of a book by Harry F. Atwood, published with the avowed aim of combatting the democracy promised to our service men only five years ago.

Every man and woman who sincerely believes in real democracy should vote "No" on Proposition 27.

MUNICIPAL HISTORY

As the vanity of man is seen in the monuments of kings, so his stupidity is read on the assessor's rolls. The southwest corner of Sixth and Olive streets, Los Angeles, contained three years ago some small antiquated buildings, valued by the assessor in 1919 at from $870 to $7,330, the whole five being set down at $12,640.

These buildings may have been appropriate when they were built. But during the time that had elapsed Los Angeles had grown from a town to a great city, and the viril population, together with the modern services of government, had raised the value of that corner from a few thousands to a half million dollars. The buildings, however, steadily deteriorated till in 1919 the assessor valued them at $12,640. They were so far from meeting modern requirements, and such a reflection upon civic enterprise that the city would have been justified in offering a reward for their removal.

These old buildings have been removed, and one of the finest buildings in the city, the Pacific Finance Building, has been erected in their place. Visitors are taken to it, as they were steered away from that corner three years ago. And, best of all, this building was put up by private enterprise, and without a cent's cost to the city.

How did the city receive this gift? That is the sad part. The civic folly of mankind is read in its tax rolls. Instead of making some appropriate reward to these men who cleared away a lot of old junk and fire traps and erected a modern fireproof building, the city clapped a fine upon them, a fine that certain backward-looking people wish to continue every year. Had the five old buildings remained to litter the ground the tax on them this year would have been $175, but the tax on the new building is $15,392.

Who can offer one legitimate excuse for this folly?

The purchase by an English syndicate, headed by the Duke of Argyll, of 150,000 acres in California might cause some people to wonder how many ranches had to be combined to make up such a piece of land. The surprise, however, lies in the fact that the 150,000 acres bought by the Scottish Duke comprised only one ninety-seventh part of the American estate of Miller and Lux, which contained 14,539,200 acres. What picayunish fellows those foreign dukes are,

TAX FACTS

Published Monthly
at 420 American Bank Building,
Los Angeles, Cal.
by
The Los Angeles Single Tax League

EDITOR.....STOUGHTON COOLEY

Subscription per year 50 cents

Vol. 1. Los Angeles, Cal., August, 1922 No. 4

THE COAL STRIKE SETTLEMENT

Whether or not the Cleveland agreement between miners and operators is to be taken as the beginning of the end of the greatest coal strike in this country, it is apparent to those who look beneath the surface that the settlement is only an armed peace. Notwithstanding the fact that both sides are claiming victory, three things are evident. First, the men have suffered much loss and endured great hardship. Second, the public will be mulct in higher prices. Third, the real point at issue remains unsettled, and must be fought out in the near future.

On the surface this struggle appeared to be between labor and capital; but lurking in the background all the time was a third interest, privilege. The price of every ton of coal mined is divided not in two parts, wages and interest, but in three, wages, interest, and rent. That is, in common terms, pay for labor, profit for capital, and income for the owner of the coal bed. The real point lies in this third item, which did not come into the open at all.

The agreement grants labor its old wages. Privilege, the owner, will get its old royalty. Capital will recoup itself by marking up prices. And the public will pay. All this because the public does not see its rights and assert itself.

The price of coal is fixed by the least productive mines in operation, that is, the "wagon" mines, and those so poor in quality as to barely pay wages and interest. Meantime, vast areas of the richest fields are locked up, in order to compel consumers to pay the highest price production can stand.

There is, and can be, but one solution to the coal question. That is to compel the opening of the richest coal fields. The easiest and simplest way to do this is through the power of taxation. Tax the rich, unused coal fields to their full value—meantime untaxing the plant and capital of the operators. The holders of the rich fields will put them in the hands of operators. The men will have employment at good wages, the increased coal on the market will lower prices, and the long suffering public will have cheaper fuel.

This solution hangs upon one point, the will of the people. As soon as the voters understand the question, and demand their rights, the legislators will enact the law. No heartrending strike is necessary, no dogged suffering by miners or public; just an intelligent vote by citizens.

HENRY GEORGE ANNIVERSARY

The Los Angeles Single Tax League will give a dinner at Paulais, 741 South Broadway, Saturday, September 2, at 6:30 p. m. Price, $1.00. The speakers will be Mrs. Anna George de Mille, Mrs. Ernest K. Foster, Dr. Adah H. Patterson, Clarence H. Geldert, R. E. Chadwick, and Judge Robt. L. Hubbard. Wm. C. de Mille will preside.

It is hoped that all who revere the memory of Henry George will be present. The problem that he solved still baffles the statesmen of the world, who try to bolster up tottering institutions with man-made laws, instead of putting themselves in accord wtih natural law. It will be good for the soul of any right thinking man or woman to be present at this meeting.

—The Committee of the East has been successful in securing the required number of signatures for the Slocomb bill in California, and the measure will be on the ballot for the voters to pass upon in November.

—In TAX FACTS for June a mistake was made in giving the 1918 vote on the Single Tax amendment in California. The negative vote should have been 360,334, instead of 260,334. And the percentage of the favorable vote should have been 25, instead of 31.

—You may have as many Castles in Spain as you like, and it will not cost you a cent; but if you build even so much as the smallest bungalow in Los Angeles, the assessor will fine you.

—Real estate brokers and agents to the number of 27,000 were licensed to do business in California during the past year. Realtors, they now call themselves. What a lot of wealth those men could produce for mankind, if they were engaged in productive