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TAX FACTS

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Tax Competition Between States Increases

By GEORGE H. DUNLOP

The States are beginning to compete with each other in the matter of taxation, seekg to make their tax systems such as will ..tract the easily transferable forms of business.

After all, an active business that pays no taxes is better than no business at all. Every active business furnishes employment, creates economic wealth of some kind, and attracts increased population—with the resultant increase in land values. In fact it contributes to the prosperity of everybody, which enables all to pay their taxes more easily than before, even though the active business itself pays no taxes at all.

A tax expert of the Chamber of Commerce of the United States was in Los Angeles a few days ago, and in a private conversation told of a manufacturing corporation that wished to build a new million dollar factory. Being awake to the importance of local taxation this corporation asked the National Chamber of Commerce to make an investigation of the tax systems of some dozen or more designated States to see which State had the most favorable tax system for such a factory as the corporation planned.

The Chamber, through its experts, spent six weeks making the investigation, and finally reported that for the kind of factory anned, Pennsylvania had the lowest tax rate. In some of the States investigated the rate would have been twice that of Pennsylvania.

TAX FACTS has previously called attention to the fact that Pennsylvania levies no tax on manufacturing machinery, that the City of Pittsburgh collects no personal property tax whatever, and that in Pittsburgh a factory building, like all other improvements on land, is taxed at only half the rate the land is taxed.

The importance of the above incident lies not in the fact that Pennsylvania—and New York State also—has a tax system that is attractive to merchants and manufacturers, but that big business and the National Chamber of Commerce have found it out.

If the California Tax Commission, and the State Legislature will awaken to the fact, it will be a great thing for the merchants and manufacturers, and dirt farmers —not land speculators—now in California, and for those who may be induced to come in the future.

What should California do right now? We have already almost entirely repealed the tax on intangible personal property. The tax on stocks and bonds of California companies has been wholly repealed, and the tax on foreign securities and on solvent credits has been six-sevenths repealed.

Our next immediate step should be to repeal the tax on tangible personal property, manufacturing machinery, stocks of merchandise, farm tools, live stock, poultry, stored crops, and household furniture.

With this done, under the terms of our

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LABOR AND THE MACHINE

President Green, at the recent American Federation of Labor Convention in New Orleans, said:

One of the most important problems affecting labor today is the displacement of workmen by machines, by devices which automatically do the work once done by trained men.

The machines and the new processes of production need cause no hardship. It has been the common experience that labor-saving devices, by cheapening the product, have opened more jobs than they have closed. It is the machine-using communities that have the highest standard of living.

But there is another force at work that tends to reduce wages and throw men out of employment, yet it is of such a subtile nature that the effects may be attributed to labor-saving machinery. That force is legal monopoly, particularly the monopoly of natural resources.

It cannot be emphasized too strongly that vacant or unused land employs no labor and produces no wealth. Wherever the owner gets wealth from buying land and selling it at a higher price, it comes from the wealth produced by others.

Mere ownership of land, as ownership, does nothing for labor or for society. It is only the user of land who employs labor and benefits society. If, therefore, valuable lands be leased to industry, competition for those lands will force the rentals to the highest amount industry can pay and live.

Men thrown out of employment by labor-saving machinery under these circumstances may suffer hardship, not because of the labor-saving machine, but on account of the high speculative rents that prevent the starting of new industries.

It may be doubted if most labor leaders have given sufficient thought to this phase of the industrial problem. So occupied have they been fighting capital, and securing good wages and hours from employers that they have overlooked or failed to appreciate the fact that the land monopolist is preying upon both employer and employee.

To secure better wages and shorter hours by strikes and lockouts union labor has suffered great hardships. But to curb the land monopolist only political action—and thought—are necessary.

Let organized labor throw its strength with those non-partizan agencies that are seeking to shift taxes more and more from industry to monopoly, from those who employ labor and produce wealth to those who employ no labor and produce no wealth.

Do this and there will be no harm from labor-saving processes and inventions.

THE FLOOD OF ASSESSMENTS

Why the flood of special assessments? It is due partly, no doubt, to the rapid growth of communities; and also to the popularity of the newly discovered principle of taxation, that of paying for public improvements by a tax on the property benefitted.

All legitimate public improvements enhance the value of adjacent lands, but do not increase the value of buildings and personal property. When street improvements were paid for out of the general tax that fell on all property few were made. The owners of personal property were slow to tax themselves for services that only raised their rents.

But now that the cost of these improvements falls upon the men who are going to receive the higher rents a different eff[ect] follows. Each, in the main gets what h[e] pays for, and the old objections are removed. A new difficulty, however, has arisen. Land speculators find that spectacular improvements will bring buyers. They will bond a district for flashy improvements to sell their land, regardless of the burden upon the home owners in the neighborhood.

So eager have the speculators become in this business that the same property will sometimes be in four or five special tax districts, and be paying as many special taxes, in addition to the general property tax.

If the personal property tax were abolished, and the tax on buildings put at one-half that on lots, some local improvements —especially pavements and road-upkeep— could be met by the general tax, and to that extent avoid overlapping assessments.

In certain States this is already the law applicable to aggricultural lands. The farmers have seen the justice of making the property that gets the benefit do the paying. In irrigation districts, road improvement districts, road lighting districts, and county fire districts, personal property and sometimes buildings are exempted from the ta[x].

Expand this principle of exempting pe[r]sonal property to include our whole tax system, and we will not need so many special assessments.

THE NEW TAXATION

Hon. George H. Duncan, tax expert, and member of the New Hampshire Legislature, says:

Ordinary business transactions are based on the principle of 'value received.' Charges for office rent, hotel accommodations, seats at theatres, clothing, foodstuffs and all other commodities are figured on the value of the service rendered. That is, all the relations between individuals in trade are carried on by an exchange of commodities facilitated by a medium of exchange we call 'money,' whereby both parties consider themselves gainers.

But in the relations between the community and its citizens we adopt a different plan. Community improvements such as roads and streets, schools and the like are equally available to all; but in collecting the taxes which pay for these activities we ask the contributor not 'how much do you benefit?' but 'how much property have you?' or 'how much did you earn last year?'

Land value in every community has many the characteristics of an office building. The rental of any office in the building depends upon its location in the building and the facilities offered. If the office is large, on the ground floor, with a good janitor, light and other services, the value and therefore the rent will be high. If small, high up, with poor service, value and rent will be low. But after the office is hired it is immaterial to the landlord whether or not the renter uses his quarters, the rent will go on just the same. And rightly, because the services are rendered whether or not the renter makes use of them.

So in the community certain facilities are offered to every land owner. The expense to the community is approximately the same whether the owner uses his land or not. It is an injustice to the user of land to charge a larger proportion of public expense to him than to the owner of similar land who does not use his holdings.

An understanding of the application of business principles to the business of taxation is growing in many communities which are gradually shifting taxes from improvements to land values. Pittsburgh by its graded tax law, under which buildings are assessed only half their value, with land at full value and nothing on stocks-in-trade and machinery, is perhaps the farthest advanced of any city in the United States in this respect. The law has proved satisfactory, and many of the keenest business men of Pittsburgh are advocating an extension of the law to relieve buildings from all taxes and raise all revenue from a tax on land values.

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new tax amendment to the State constitution—there being no "personal property tax offsets"—the State income tax on business corporations can be reduced from four per cent of their net income to less than one per cent, with the State treasury still receiving the same revenue.

Do this, and big business and the National Chamber of Commerce will discover California. So also will a multitude of small merchants, manufacturers and farmers.

NOTES

The South appears less solid, but more sound. —*Christian Science Monitor.*

And to think that Florida went for a Californian.—*Brunswick* (*Ga.*) *Pilot.*

A flying rumor never has any trouble in making a landing.—*Arkansas Gazette.*

Crimes story could be shortened by lengthening the sentences.—*Wall Street Journal.*

Great men are seldom misquoted in print, but it's charitable to think they are.—*Washington Post.*

The astounding thing about it is how many innocent men handled this G. O. P. oil money.—*Dallas News.*

England has developed a substitute for cotton, but in this country we just use silk.—*New York Evening Post.*

A scientist says there is no such thing as a perfect climate. That man would be hanged in California.—*Dallas News.*

Wonder what the big captains of industry do when they are not predicting "Continued Prosperity"—*St. Joseph News Press.*

All the big nations have agreed not to go to war, so they are now building war-ships to give the sailors a ride.—*Dallas News.*

Nothing seems to be quite so much needed in this country as the spread of intelligence among the "intelligensia."—*Boston Transcript.*

You might not believe it, but in some of our cities poverty is so great the people can't buy gasoline to drive to the soup lines up-town.—*Council Bluffs Nonpareil.*

According to an official of the College of Arms fewer persons now bother to trace their ancestry. This is probably due to the increasing difficulty of hushing it up afterwards.

"One person is struck by an automobile in this country every forty-two seconds," says an informative contempory. He must be in pretty bad shape by this time, whoever it is.—*New York Evening Post.*

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MAKING THE BEST USE OF LAND

What right has an owner of residence property to put a business front on his house, bring it up to the sidewalk, and shut off the view of his neighbors? What right has he to erect a tall apartment in such a neighborhood, taking light and air from others?

These are among the lesser evils that plague the home owner. The waste of speculative subdivisions, the dead capital mistakenly expended, the vacant lots, all add to the tremendous burden borne by the users of land.

Comes now the Institute for Research in Land Economics and Public Utilities,* with an inquiry into the right use of urban lands. It is a pretentious effort, designed to meet a real need; but it is to be feared the authors have been guilty of darkening counsel, instead of contributing to the solution of the problem.

The problem of urban land economics has two aspects. One is the superficial, embracing a multitude of effects. The other is the fundamental, comprising a few basic principles. It is to be feared that the scholastic training of the authors has led them into a wilderness of detail that has left them confused and unable to grasp the meaning of their own data.

Urban land economics embraces three primary factors: the site, the people, and what the people do to the site. If the primary relations between these three factors be kept clearly in mind, the details will ultimately dispose of themselves. Otherwise we shall have what we have—confusion.

The site, the lots, the land, the space occupied by the city is subject to the law of rent. By rent is not meant the charge for the use of houses, furniture, or other artificial objects, but economic rent, the annual value that comes to land only from the presence of population.

Population is also governed by a natural law. Each individual seeks to gratify his desires by means of least exertion. What will these individuals seek to do to this site?

Manifestly, men will try to enrich themselves by holding land in order to acquire the land values that come to lots or sites in growing communities. The fortunate ones will succeed, and become wealthy. More will fail, and lose the little they had. But both those who succeed and those who fail, will be a burden upon the users of land.

There is only one way to secure the best use of urban lands. That is to take the profit out of land speculation. Man, seeking to satisfy his desires along the line of least resistance, will not hold land idle when it pays more to use it. He will not put it to inferior use when it pays better to put it to full use.

It is at this point that the authors of Urban Land Economics become confused. At page 378, after admitting the justice of special assessments to pay for pavement, sewers, etc., because of the benefits received by the property owner from these community services, the authors add:

> Such taxes should be levied equally upon improvements and upon land, as it is the realty, the land plus the improvement, which is benefitted; the benefit accrues to the improvement as much as to the land, and the improvement should bear its share of the burden.

Is it possible that two men, can be found associated with a university who deliberately claim that a community service—street pavement or what not—"accrues to the improvement as much as to the land."

To say that a tax has the same effect on a lot that it has on a building on the lot is to ignore the experience of mankind, and the teachings of all enlightened economists. And to confuse a tax on economic rent and a tax on labor products is to forego the very economic force that controls the use of urban lands.

There is nothing mysterious or strange about urban land economics. Legitimate government services that make land accessible to population add to the value of sites or lots. These services do not add to the value of buildings and personal property. If the government lays taxes upon citizens according to the benefit conferred upon their property, all will work to the advantage of the city.

* URBAN LAND ECONOMICS, By Herbert B. Dorau and Albert G. Hinman. Published by The Macmillan Co.