

TAX FACTS

Published in
the interest of

SOUND ECONOMICS

and

AMERICAN IDEALS

Vol. VIII.

Los Angeles, California, December, 1929

No. 8

Discrimination Against Business

By Ralph E. Chadwick

There is neither rhyme, nor reason in the tax system in any part of the country with which I am familiar. Taxation is simply a process, part law and part custom, by which funds required by government are obtained. Those charged with responsibility for its administration are concerned in getting funds with the least possible trouble. If the taxpayer is annoyed too much he will rebel, or his demand for relief will be heeded along about election time.

Those financially powerful enough to command attention and respect do not hold their hands and wait to see what the assessor will do to them. They plan to get by with as little expense for government as possible. They are not to be blamed for that, since in these days of efficient management every penny counts for or against them, and competition compels the saving of every possible dime. The difference in tax rates due to location within or without certain areas is thus something to give pause to thoughtful folks who dream of something approximating justice in taxation.

The net result of our unscientific system of taxation is to drive industries away from incorporated cities, where they might enjoy the maximum of service, far out into the country, where their workers will find it difficult to reach them, or will have to live under undesirable conditions.

In some locations, outside municipalities, the saving in taxes by industries is the difference between profit and loss, if turn-over is very great. In Vernon—an industrial city—the tax rate for 1929 was 2.99, against 4.26 for factories located across the boundary that separates Vernon from Los Angeles. In Torrence the tax rate is 3.13—

due to great wealth in proportion to population—compared to the rate in neighboring Los Angeles.

There are unincorporated areas adjacent to Los Angeles, and other municipalities in Los Angeles County, where factories have no city rate to pay, yet where they enjoy privileges due to location that gives them an advantage over those unfortunate enough to be included within the borders of cities.

This discrimination is unfair. It works serious hardship upon some industries. It penalizes every factory that is located within the borders of a city. It is especially unfair to industries whose business is of a nature to compel them to locate within incorporated areas.

Justice demands that every factory in California should stand upon equal terms before the assessor. No industry should suffer a tax handicap. All should contribute to the support of government upon the basis of benefits received. Every industry and every individual should pay for the service government renders him. There should be no shirking of responsibility by any one.

Industry—the making and selling of needed goods—should suffer no handicap. It should not be harassed by any governmental agency. It should be free to give service in any field.

Obviously, legislation is needed that will permit a city to offer industry the same opportunities that an unincorporated area can. Inside or outside a city, industries should be treated the same for taxing purposes. The accident of location should make no difference in the sum required for the support of a given government.

(Continued on page 27)

AFTER US THE DELUGE

"The grossest error of mankind," said Herbert Quick, in his most instructive book, *The Real Trouble with Farmers*, "is the thought that high land values mean good to man."

The *Los Angeles Times* recently stated in an editorial:

Senator Capper says that in a lifetime there will never be another opportunity to buy land as cheaply as now. He is talking largely of farm property, but the opinion has a wider application. There was something of a slump when the country showed signs of having overbuilt, but the nation has caught up and neither lots nor lands can ever be expected to touch a mark lower than they are today.

That thought prevails in the minds of all careless thinking persons. Buy land, therefore, and hold it for a rise. Persons of experience, however, know that vacant land must advance rapidly in value to meet taxes and the loss of interest on the investment. Meanwhile, millions of lots in cities, and millions of acres in the country lie idle waiting the rise that is to enrich their owners.

Idle land, whether in lots or acres, employs no labor and produces no wealth. Whence, then, comes the profit derived by the fortunate holders of vacant land? Ah, that is the question that few land speculators ask themselves. All they want to know is that the price at which they sell is enough greater than the purchasing price to yield a profit.

Why should land advance in value? Buildings do not. Why should buildings decrease while land increases in value. The value of a building is the amount of human effort required to duplicate it. The value of the land is the amount of human effort that the owner can get from the tenant. The more tenants, or purchasers seeking land, the higher its price will go.

That is why Senator Capper and the editor of the *Times* say the price will never be less than at present. That is why Roger Babson and Arthur Brisbane advise people to buy land to sell at an advance to later comers. That is why Herbert Quick says, "the grossest error of mankind is the thought that high land values mean good to man."

Unless we wish to see the independent farmer and the home owner succeeded by tenants with little interest in the community, and without that sterling character that made America great among the nations, speculation in land must be stopped.

The Federal Farm Board may so stabilize marketing that farming will yield a profit where it now shows a loss. Good. But what then? What follows the announcement of large building undertakings in some city? There is a rush of the unemployed from other cities.

That is what will follow the successful efforts of the Federal Farm Board. There will be a rush of men to the farm, until the rising price equals the profits that come from the new system. There will be a new batch of retired Iowa farmers in Long Beach, and a new set of tenants in Iowa.

If America is to maintain her independent farmers and home owners the next generation must have the same access to land that the past generations had. Speculation in land must go the way of speculation in men.

BREAKING HER CHAINS

Ohio has at least succeeded in amending her constitution to do away with the uniform tax provision, or the taxing of all property at a uniform rate. This provision in the constitution has for years blocked all efforts to bring order out of her chaotic tax condition.

It now remains to be seen what the people of the State will do with their freedom. The *Cleveland Plain Dealer* is urging the Governor to formulate a program to be submitted to the legislature in 1931, saying, "It is particularly desirable, and possible now for the first time, to do away with some of our personal property taxes, which have been badly administered and have produced little revenue."

Ohio may profit by the example of Mississippi, which State has undertaken to lighten the farmer's burden by exempting live stock from taxation. Possibly the Buckeye State will also take a lesson from California, which has amended her uniform tax provision to the extent of taxing foreign securities two mills, and money and solvent credits one mill. If the present Joint Legislative Tax Commission of California lives up to its opportunities California will be able to offer her sister States some examples in the way of un-taxing tangible personal property at the next legislature.

THE WALL STREET AFTERMATH

The stock slump in Wall Street has brought a quick response from moralists. Buying stocks on "margin", says the moralist, is gambling, getting something for nothing, which is the essence of thievery.

But the realtor moralist is more practical. Wall Street, he says, is no place for small investors. Land is the only sure thing. Land cannot run away, be stolen, or burned. It is fool proof buy land.

What the realtor says is not all true, but there is enough truth in it to cause mischief. Profits in land holding are not always certain, but they

are so much more probable than gains in the stock market that a vast number of people have bought, and are holding, land that they expect to sell at a profit to persons who wish to build homes or establish a business.

The vacant land thus held for a rise—just as stocks on Wall Street were bought for a rise—are valued at many millions of dollars. Realtors assure us that this value is going to be much greater. Some of this land may not increase fast enough to meet taxes and interest charges; but the rise in value of particular lots and acres will be so great as to raise the average to the level of a good investment.

This gives rise to a serious train of thought. Why should the holding of vacant land be a good investment for the owner? An owner who tills an acre gets his return from the crop. An owner who builds on his lot receives rent from his tenant. But the owner who neither builds nor tills, why should he gain?

The owner of a vacant house would expect no gain from it. Nor would he look for profit if the house were furnished, so long as it was without a tenant. Whence, then, the gain from unoccupied land?

Profits from gambling, whether it be in Wall Street, or in Monte Carlo, come from the losers. Whereas a business that produces wealth may return a profit to all who are engaged in the enterprise, a speculation that adds no wealth to the community can enrich some persons only to the amount that other persons lose.

This fact is quite clear to those who were on the wrong side of the market during the recent stock flurry. It is not so plain to some realtors who deal in idle land. Yet the two cases are alike in principle.

(Continued from first page)

If there were no discrimination possible, industries could, and doubtless would, take a less active interest in selfish politics. It would make little difference to the industrial leaders who was elected to office if their tax burdens remained the same. They could then function as citizens, instead of industrialists. The political juggling and hi-jacking made possible by the present situation should be remedied.

The problem of tax discrimination against industries located within cities should have the serious attention of the Joint Legislative Tax Commission. If municipalities were given a greater degree of control over the source of their revenues, adjustments could and would be made that would cure the evil.

LEGAL GAMBLING

The gloom is fading from the real estate situation. More nibbles during the last few weeks than for the last three years. If January brings us good rains, this next year will open the door to the sunshine—a case of rain bringing the sun.

It is to be hoped, however, that there will never be another boom. The crash of the boom of 1923 was due to the same causes that wrecked the Wall street stock market. People sold what they did not own. They made a payment down in the hope of getting the property off their hands before it began to burn. Real estate fell into the hands of sharp-shooting gamblers who had no interest in land. To them it was just a pile of blue chips on a roulette wheel.

Harry Carr, in Los Angeles Times.

Incidentally, the best way to put an end to all wars is not to begin any.—*Judge.*

Of course the tariff hopes of the American manufacturers are high.—*Virginia-Pilot.*

We hope that the Noise Commission will make itself heard.—*New York Evening Post.*

A great many reports lie before Congress, if you get what we mean.—*Nashville Banner.*

New speed cars have two horns on them. Probably one for Gabriel to blow.—*Norfolk Ledger-Dispatch.*

A man being tried for murder in New York insists that he is not insane. He must be crazy!—*Southern Lumberman.*

One thing you'll have to give them credit for is that in Wailing Wall Street they don't call it a holy war.—*Philadelphia Inquirer.*

Maybe the reason why Russia and China do not get down to fighting a real war is because they fear it may have a Japanned finish.—*Louisville Times.*

A scientist's proposal to demonstrate that man did not descend from monkeys may result in ultimate vindication of the monkeys.—*Weston (Ore.) Leader.*

An expert says that a wireless talk broadcast from America could be heard at the bottom of the dead sea. A new terror is added to Davy Jones' locker.—*Punch.*

A typewriter add says children do better in school if they don't learn writing. The signatures of famous men seem to bear out this theory, too.—*Waterbury American.*

"Do you want a car that will help you to see the world?" asks an advertisement. It all depends which world is meant—this one or the next.—*The Passing Show, (London.)*

There is big money in Wall Street for anyone who knows how to play the market, and Beethoven's sonatas are on any piano if you just happen to hit the right notes.—*Kay Features.*

"The Filipinos," says Senator Wheeler of Montana, "are as capable of voting as the people of Chicago or Philadelphia are." Would you call that damning with faint praise, or just plain knocking?—*Macon Telegraph.*

TAX FACTS

Published Monthly

By The Tax Relief Association of California
418-420 American Bank Bldg., Los Angeles, Cal.
Phone: Tucker 2417

EDITORSTOUGHTON COOLEY

Subscription per year 50 cents

Vol. VIII. Los Angeles, Cal., December, 1929. No. 8

SPECULATIVE VALUES

Protesting that real estate in San Fernando Valley is over taxed, Mr. Leslie Taylor, former head of the Van Nuys Realty Board, undertakes to show that the assessor is taxing lands on a basis of their speculative rather than their real values. He says:

Near North Hollywood one rancher who owns a large walnut orchard was taxed \$60 an acre this year, simply because his acreage happened to be across the road from a subdivision. Subdivisions in many cases have developed far in advance of the valley's growth, and in every such case, surrounding property is assessed on the basis of a speculative value.

Mr. Taylor thinks the officials do not deliberately discriminate against realtors, and is sure a united effort of the realty boards will mend matters. Some officials, at least, meet the boards sympathetically. Ray W. Baker, tax collector of Fresno County, for instance, has recently declared before the Joint Legislative Tax Commission, for the abolition of present taxes on real estate, and for sales and income levies as a means of producing State revenue. As reported by the press, he said:

The United States is rapidly becoming a nation of gamblers through purchase of securities, which is taking money away from legitimate business. People are buying tax-exempt securities instead of real estate, and are purchasing automobiles where they formerly bought a couple of lots.

From all parts of the State, and from the whole country, come complaints of excessive taxes on real estate, meaning, of course, taxes on land. These complaints are mainly from two sources: from land speculators, and from farmers.

The farmer's complaint is due largely to what Mr. Taylor finds in San Fernando Valley, the speculative basis of valuation. The land speculator's objection is due to the fact that taxed land does not rise in value as rapidly as land less heavily taxed.

Since the speculator is interested only in selling land for more than the price at which he bought, he is opposed to taxes. He is not concerned with wages, for he employs no labor. And he disregards prices of goods, because his vacant holdings produce nothing.

With the working farmer, however, the case is different. He is willing to pay his share of taxes, but he objects to paying more than his share. He is willing to pay for what the government does for him, but he is opposed to being taxed for what he does for himself.

The most serious handicap of the farmer is the self-assumed guardianship forced upon him by the land speculator. All that the two have in common is the fact that they both have land. One uses his land, however, and the other does not; and it is this use of the land that divides their interests.

When California mortgages were untaxed it aided both the farmer and the speculator by giving them cheap money. Now that it is proposed to untax "tangible personal property, wearing apparel and household furniture in use, stored crops and food products in the hands of the producer or in public warehouses, live stock, tools and machinery in use," the realtor speculators object.

Why are realtors opposed to untaxing tangible personal property, as above listed, when they voted to untax money? Is it because they have no furniture, stored crops, and food products in public warehouses, live stock, tools and machinery while the farmer has?

Mr. Baker, tax collector of Fresno county, tells the Tax Commission that we are becoming a nation of gamblers, because intangible securities are untaxed; and that people "are purchasing automobiles where they formerly bought a couple of lots."

Altogether too many of our people are gamblers. They have been gamblers ever since the country was first thrown open to settlement. Shrewd men were quick to see there was more money to be made by getting hold of the lands, and selling to the actual settlers. Not a few of the first settlers took up twice or thrice the amount of land they could use, and sold to those who came after.

Unscrupulous men made fraudulent entries, bought land script for a trifle, and with the aid of loose laws and the conniving of dishonest officials practiced all manner of schemes to enrich themselves at the expense of those who developed the country.

California is still handicapped by hords of land speculators who stand in the way of working farmers, home-makers, and manufacturers. Were the State to follow Tax Collector Baker's advice and replace the tax on land by a tax on sales and incomes, speculators could hold land idle indefinitely, and so charge that much more to users.