TAX FACTS

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Economic Confusion and a Simple Remedy

By George H. Dunlop

Various unrelated tax-interested groups are advocating changes in our California tax system, which changes they think will be advantageous to themselves.

It is an interesting fact that one certain tax change can be made that would be beneficial to each of these groups—if they only knew it. That one change, beneficial to all these groups, is simply this: "Repeal the California tax on tangible personal property."

Tangible personal property includes manufacturing machinery, stocks of merchandise, household furniture, live-stock, stored crops, etc.

Briefly, let us apply the proposed repeal of the tax on tangible personal property to the several groups.

Real Estate Owners. The California Real Estate Association favors transferring more of the cost of education from local taxation on land to the tax revenues of the State—but little of which are collected directly from land. But where will the State get the extra money with which to pay a larger share of the cost of education?

The answer is: "Repeal the tax on tangible personal property." Under our present laws, the business corporations of the State pay a State income tax of four per cent, from which, however, they are allowed to deduct the taxes they may happen to pay locally on tangible personal property. These deductions will then disappear, the State revenue will be increased thereby, which will enable the State to pay a larger share of the cost of education, the local land taxpayers will pay less of the cost of education, and the corporations will pay no more than they are now paying.

The Farmers. In addition to the benefits enjoyed by the real estate owners, the farmers would be relieved from the tax on live stock, farm machinery, and stored crops. Cotton, wheat, raisins, canned goods, etc, must now be shipped out of the State before tax assessment date, or be taxed for the whole year. This is all wrong, if the crops are to be sold to the best advantage.

Merchants and Manufacturers. In Pittsburgh, New York, and London, manufacturing machinery and stocks of merchandise are partially or wholly free from taxation. Our Merchants and manufacturers should be on as favorable a basis as their competitors.

Educators. All educators agree that the State should pay a larger share of the cost of education. How can the necesssary increase in the State's tax revenue be better secured than by repealing the tax on tangible personal property, as explained above?

County Assessors. The county assessors would like to have the date of tax assessment changed from the first Monday in March to the first day of January. Merchants and farmers object because they have larger quantities of tangible personal property—merchandise, harvested crops etc., on hand January first than on the first Monday in March. Repeal the tax on tangible personal property, and no one will object to the change in the date of assessment. This change is sorely needed in order that the assessors may have sufficient time to do their work accurately.

Householders. All householders would be glad to hear the tax on furniture, clothes, etc., had been repealed. Actually this tax does not pay for the cost and bother of collection.

Students of taxation. Most students of taxation know that the tax on tangible personal property is unscientific, inequitable and undesireable.

The Boosters. All California boosters know, or should know, that the repeal of the tax on tangible personal property would so promote commerce, manufacturing, and agriculture in California that unparalled prosperity would result. To all land owners the question of prosperity is more important than the tax rate.

LAND VALUES

By Lawson Purdy

Land values depend upon the productive power of the population. Some people have an erroneous thought that land values depend upon the number of people. That is only one of the factors of which there are many.

A thousand illiterate, shiftless, physically weak people can produce but a fraction of the land value produced by a thousand intelligent, thrifty people. Again, if you took a thousand intelligent and thrifty people and set them down in the middle of the California desert it would be doubtful whether they could produce a dollar an acre before they starved to death. You could plant those same people in a fertile territory and there would be little land value unless they had means of transportation.

Land values vary throughout the United States in accordance with the principles set forth above. The land values in the State of Mississippi are but a small fraction of the land values in the State of Rhode Island. Land values in a town like Lackawanna, which is made up of industrial workers, are small compared with the land values in a suburb of the City of New York, inhabited by people who live in separate houses, each of them having an average value of approximately \$25,000. The land values in the territory of the town of Scarsdale are in the neighborhood of \$5,000 per capita.

Land values in and about a city are apt to vary when expressed in per capita terms from the very highest point at the financial center of the city to the lowest point in that section in which the poorest class of people of the city live, and then rising again in a suburban development of high class inhabited by people of considerable means in which they are all well to do.

A few examples will illustrate the principles. The figures are taken from the Financial Statistics of Cities for 1927. Land values are not separately stated. We may assume that land value and building value are about the same. Even if this varies, and it is as low as 40% for land in some places and 65% in others, the value of the illustrations is not vitiated.

The percapita value for Los Angeles is not given because of uncertainty as to the number of people. If we assume a population of 1,000,000 the estimated true value of real estate was about \$2,600 per capita, whereas Pasadena had \$3,400. Pasadena has the reputation of being a very rich place. Charleston, S. C., we know, is poor. Its real estate value per capita seems to be about \$500. In Massachusetts there are two cities lying within a few miles of each other and it is quite obvious that one of them is very rich and the other is poor. Brookline is a residential suburb with few poor people and many rich ones. Its per capita real estate value is about \$3,000. Chelsea, which is just the other side of Boston, and is a manufacturing city, is about \$900.

A comparison of land values by States will illustrate the same principle. The value for Mississippi and South Carolina is very low; the value for Rhode Island is high for one reason and of Nevada for another. Nevada has rich mineral deposits and very few people.

Land values, then, are due to population, plus effective productive power. It is the duty of statesmen to establish economic conditions that will produce the greatest amount of wealth, and secure its just distribution.

THE CONSUMER PAYS THE TAX

The statement of the editor of the Pasadena *Post* that the renter pays the tax on the property he occupies is questioned by a correspondent who says that this cannot be because "if taxes go up rentals cannot be advanced in proportion."

The Editor, however, sticks to his position. He insists that "a landlord might be losing money, but his tenants, if he had tenants, would be paying his taxes just the same . . . . . There is no getting away from the fact that the bills have to to be met by the ultimate consumer, and that if he does not produce enough to pay them, they go unpaid."

The honors, owing to an apparent confusion as to definitions, seem to be divided. The editor is undoubtedly right in holding that the consumer pays the tax. The correspondent may be right in the specific instance where the tenant is not the consumer This is a very important point, and it is to be hoped that it may be developed more at length. Were it better understood, the people would have a clearer understanding of the whole tax problem.

In so far as the property occupied by the tenant is man-made, and produced in response to demand, taxes, like all other items of cost must be paid by the consumer. But to the extent that the property is not man-made, and not produced in response to demand the taxes will not be paid by the consumer.

Houses and other improvements are produced in response to the demand of tenants. If the tenant does not pay the whole cost of production, house building will cease till he is ready to pay. Land, however, is not produced in response to the demand of tenants. Neither is it consumed, strictly speaking, by the tenant. So far as can be measured by owner and tenant the land was always here, and it will always remain.

It is this well known, but rarely considered fact that has brought such confusion regarding taxation. It is perfectly evident that no one will produce goods unless the whole cost of production is paid by the consumer. It is equally clear that we will have the same fixed quantity of land whatever consumers may do.

There are, it is stated, 566,000 vacant lots in Los Angeles and County. If a tax be added to this half million lots it cannot be added to the tenant or consumer. There is no tenant or consumer. Neither can the tax be added to the price. The lots are already priced above the market, and are held for a rise.

Most owners of vacant lots are making no profit: big profits are as rare as big prizes in a lottery. If the cost of holding lots be increased by the addition of more taxes, the weaker speculators will lower their price in order to "stop loss." The falling market will cause others to cut prices, which in turn will tend to reduce the price of improved lots.

It must be apparent from the foregoing facts that taxes laid upon houses and goods are added to price and limit consumption. Whereas, taxes that fall upon land tend to force it upon the market and increase its use.

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THE SNAIL'S PACE

REAL WAGES IN THE UNITED STATES, 1890-1926. By Paul H. Douglas. Published by Houghton Mifflin Company for the Pollak Foundation of Economic Research, Newton, Mass., 1930. $7.50.

Many persons have been confused by recent changes in the United States as to whether the mass of people are advancing economically or falling behind. Are the boosters' claims to great prosperity well founded, or are we to accept the doleful forebodings of the pessimists? Wages are higher than before the War, but so is the cost of living. Hours of labor are shorter, but more workers are unemployed. The real question is, does human exertion secure more satisfaction today than it did a generation ago. It is to answer this question that the Pollak Foundation has put out this elaborate statistical work of 680 pages.

Prof. Douglas, of the University of Chicago, has an elaborate study of wage scales and prices, hours of labor and unemployment, from which he has evolved index figures that lead him to certain conclusions that will prove an aid to those who rely upon the statistical method to measure human progress.

Both the optimist and the pessimist might draw comfort—if a pessimist can be said to have comfort—from Prof. Douglas' findings. Real wages, that is the purchasing power of labor, have made small advances; but the earnings of the less favred classes of labor are still so pitifully meager ccording to the author's showing when compared to the wealth of the country, that the thoughtful reader must see that the economic problem as a whole is still to be solved.

HOW DEMOCRACY GREW

THE AMERICAN REPUBLIC OF STATES AND DEMOCRACY OF CITIZENS, By Laurie J. Quinby. Typosium Publishers, Los Angeles. 1930. 75c Postpaid.

Most interesting is the story, however told—whether at length and in detail, or graphically and in dramatic phrases—of the growth of our political system. The author of this tastefully printed brochure has followed the development of our present form of government from its expression in the Declaration of Rights that marked the resistance of the American Colonies to British tyranny, in 1774, the Declaration of Independence that marked the formal severence of allegiance in 1776, the Articles of Confederation that won the war, to the adoption of the Constitution, 1787.

Doctrinaires who aspire to impose on a long established social order an ideal drawn from their inner consciousness, as well as those who think lightly of our republic of States and democracy of citizens because it is ours will do well to re-read the story of its inception.

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One thing that never works properly after it has been fixed is a jury.—*Louisville Times*

Alcohol is just as bad for the arteries of traffic as it is for the arteries of man.—*Louisville Times.*

"Success depends upon proper functioning of the glands." This is especially true of the sweat glands.—*Lancaster New Era.*

Wets who say they are against Prohibition because it doesn't prohibit would probably not be for it if it did.—*Western Leader.*

At any rate, Senator Deneen won't have to acknowledge that the best man won in the Illinois Senatorial primary.—*Nashville Banner.*

Will Irwin says Hoover is another Roosevelt "under the skin." Well, for heaven's sake, won't somebody skin him.—*Atlanta Constitution.*

Preliminary census reports are that American villages are doomed. There is no longer room for them between the filling stations.—*Dallas News.*

A man has been fined for using bad language over the telephone. We understand that his excuse was that he was using the telephone.—*Punch.*

National conditions look worse when last election's promises have been forgotten and the next election's promises are not out yet.—*San Diego Union.*

Tax refunds may be on the square, but why are the big fellows the only ones dumb enough to make such mistakes in their returns?—*Publishers Synidcate.*

Wheat prices have slumped again. Pretty soon the farmer will yearn to escape from farm relief and get back to good old-fashioned depression. —*San Diego Union.*

A party is perpetually corrupted by personality. Whilst we absolve the association from dishonesty, we cannot extend the same charity to its leaders. —*Ralph Waldo Emerson.*

There have been over two thousand new laws passed in the United States during the last three years. There is evidently a very generous allowance for breakages.—*The Humorist.*

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THE REALTOR'S PLIGHT

"Los Angeles land values will register an increase of at least $455,000,000 during the next five years," says Harold G. Ferguson, president of the Los Angeles Realty Board, in a statement quoted by the Los Angeles *Examiner* of May 17.

Confidence in this prediction may be placed on grounds other than faith in the prophet at the head of a great realty board. The Realty Board itself carried a full page advertisement in the Times of May 13, stating among other things that the assessed value of land in Los Angeles had increased from $307,089,565 in 1920, to $1,150,599,975 in 1930.

Since the assessed value is only half of the selling value, the ten years increase in assessed land value of $843,000,000, really means the addition of a sales value of $1,686,000,000, or $10,520 for every family living in the city in 1920. This gives color to the Board's quotation from Andrew Carnegie: "Ninety per cent of all millionaires become so through owning real estate. More money has been made in real estate than in all industrial investments combined," And the further statement that "now is the time to invest in realty."

It would be uncharitable to question the good faith of the Realty Board, as it would be ungenerous to doubt the prophetic judgment of Mr. Ferguson. The Los Angeles Realty Board is one of the foremost commercial institutions in the city, and is composed of wise and honorable men, men without maudlin sentiment, and with an eye to the main chance. Who would accuse them of misrepresentation for the purpose of selling land to the unitiated?

But while the position of the Board and its president on the increase in land values, startling as the truth may be, is doubtless in accord with the facts, one is at a loss to understand their position on the California tax question.

These same realtors who are so eager to have the world know of the rapid increase of land values in Los Angeles that they publish it in full page ads in the daily papers, have launched a campaign to have the taxes on land values reduced. Land, they declare, is paying more than its share of taxes, and must be relieved.

How can that be? Have not these men shown that land values in Los Angeles almost quadrupled in the last ten years, and that they expect them at least to double in the next five years? Building values have not increased during that time, nor will they in the future. Buildings depreciate with age. Merchandise values have not advanced, and will not advance in value.

Under what code of ethics, or by what system of logic do realtors—in view of the fact that land values increase rapidly with the growth of the city, while goods values do not so increase—presume to ask that taxes be lifted from land values and placed upon goods?

The same paper that carried Mr, Ferguson's prediction of land value increase in Los Angeles in 1935, carried a list of 24 corner lots on Wilshire Boulevard, between Dayton Way and Santa Monica Boulevard, prepared by the Title Guarantee and Trust Company. These lots averaged an increase in the last ten years, of 506 per cent. Four lots increased over 800 per cent, while one gained 1015 per cent.

No building on that or any other street showed any gain in value. No automobile, tracter, ditcher, mixer, derrick, steam engine, or other piece of machinery increased in value in that time. If a machine and a lot be put to use, labor will be employed and wealth will be produced. If the machine and the lot be allowed to stand idle no wealth will be produced, or labor employed, but the lot will be more valuable at the end of the year, while the machine will be less valuable.

In other words the growing community does nothing for the machine owner except as he does for himself, whereas, the same community adds to the wealth of the lot owner when his lot is idle. Is no consideration to be taken of this fact in the laying of taxes?

It is possible for realtors, by ignoring ethics and appealing to politics to win the aid of farmers and relieve land of taxes. But where the farmer gains one dollar the city owner will gain ten; and the taxes so removed will fall with redoubled weight upon farming and business, and there will be more unemployment than before.

There is no common interest between the farmer and the city lot speculator. The famer makes his living by labor. He produces wealth which he must sell. His great market is with men who work and produce wealth which they exchange for products of the farm. Vacant lots buy nothing from the farmer. Nor do vacant lots produce anything for the farmer. But the owner of vacant land, though employing no labor and producing no wealth, does levy toll upon workmen and farmers.

Therein will be found the solution of the farm problem and the workman's dilemma, when the wise men at Washington deign to look.