

# TAX FACTS

Published in  
the interest of

SOUND ECONOMICS

and

AMERICAN IDEALS

Vol. IX

Los Angeles, California, February, 1931

No. 10

## One Good Idea and One Bad One

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*Report of the Joint Legislative Committee on Taxation.*

The Joint Legislative Committee on Taxation has filed its report with our state legislature. This joint committee, consisting of a number of state senators and assemblymen, was appointed by the California Legislature of 1929 for the purpose of studying the tax system of California, and reporting thereon to the present session of the legislature of 1931. After two years of study the committee has made its report.

In addition to various minor recommendations for the better administration of our tax laws and for the continued study of our tax system, the committee specifically recommends for the present,

1. That the existing system of separation of the sources of state and local taxation be continued, and

2. That the constitution be amended to eliminate the requirement that the counties contribute an amount equal to the contribution of the State for elementary schools, and a sum twice the amount contributed by the State for the support of high schools, in each county.

The first recommendation above is good, the second is bad. Let us examine them.

1. *The Separation of the Sources of State and Local Taxation.*

The State of California, as a state government, levies no taxes on real estate and personal property, leaving these great forms of property subject only to county, city, and local district taxation. The state levies its taxes on certain public utilities, insurance companies and banks, all of which, in turn, are exempt from ordinary local taxes. There has been some agitation to abolish this separation of the sources of taxation for state and local purposes, and to go back to the system in vogue in California before 1910, when there was no separation, and the state and the local government both levied on all classes of property.

The Joint Legislative Committee has refused to recommend this reactionary return to former conditions.

When separation of state and local taxation was made in 1910, the change was a good one as tending to eliminate the great railroads and utility companies from local politics, they no longer having any interest in the work of the County Assessor, and of the Board of Supervisors who serve as a Board of Appeal from the County Assessor's valuations. Nor has this corporation pressure to get out from under their taxes been transferred to state tax collectors, as the corporation state taxes are fixed by law at certain specified percentages of their gross receipts, which are easily and definitely determined by auditing the books of the corporations. This gives California an almost ideally definite, cheap, and non-political method of taxing the great utility corporations.

However, good as was the idea of separating state and local taxation in 1910, it is still better today, due to the economical changes of the past twenty years. Since 1910 there has been a steady tendency on the part of our public utilities to merge and consolidate into larger and larger companies, so that now most utilities are no longer local in their operations, but are more or less state wide in their businesses.

This was always true of the railroads,—it is now true of the telephone companies, the great electric power and light companies, the gas companies, transporting natural gas hundreds of miles, the banks with their state wide bank branch systems, the auto bus lines running up and down the whole state, etc. None of these state wide businesses can be chopped into physical parts at the artificial county and city limits, and then be taxed locally on these fantastic physical parts. They are state wide businesses and should be taxed exclusively by the state for the benefit of

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## THE TAX PROBLEM

### Part II

This discussion is designed to show the absurdity of our present tax system, of all tax systems in fact, that are founded on the ability-to-pay idea, and to show that the natural system of levying taxes is based on the same principle that governs all business transactions in the exchange of goods, i. e., payment based on amount of goods received.

One of the departments of local government that must be paid for by taxes is the police department. Every large city has a detective bureau in connection with its police force. In these cities are also private detective agencies. Our most popular one here in Los Angeles is the Nick Harris agency. When you go to Nick Harris and arrange with him to have one of his men walk past your house so many times every night to see that no uninvited guest is climbing in your window, he doesn't ask you what you paid for your house nor what your yearly income is. He figures his overhead expense, the wages of the man who is to do the walking, what he considers a fair profit, and what he believes, or has found from experience, that the public will pay for such service. Then he tells you how much it will cost you to have your property safeguarded in this manner.

He doesn't charge you one price and your more prosperous, next door neighbor another for the same service. He is a business man, and he fixes his charge exactly the same way that the cement contractor did who laid the sidewalk on which the watchman is going to promenade. When you want a walk in front of your house, the contractor doesn't bother his head over your worldly wealth. He says in plain English: "This walk will cost you so much a square foot. Take it or leave it."

Suppose the man who walks past your house every night to guard you from the banditi is a regular bonafide policeman—Sam Brown belt and all. When the city collects your taxes, which are to pay for this service, it doesn't say: "It costs so much to maintain the police force, so much to have an officer walk a beat in your neighborhood, and you and your neighbors will have to pay that cost." It says: "How much is your house worth? Do you own a radio? How many bonds have you in your safety deposit vault? If your worldly goods amounts to \$10,000, it will cost you so much. If it is worth \$20,000, the same service will cost you twice as much. Why? Because we've always levied taxes that way, according to what you have, not in proportion to the service you receive." Well, that's all the bandit is interested in—what you've got!

The personal property tax and the income tax

are both based on what you have and not on what you receive in service from the government. Do you know of a single merchant or manufacturer who fixes his prices on that principle? Every merchant, from Marshall Field to Sears Roebuck, charges his customers for service rendered and neither knows nor cares whether your income is fifty dollars a month or fifty million a year. Why should the government fix its charges on any other principle? It confers certain benefits of police and fire protection, of education, of a central water supply and so on. Why not be as business-like when we sell these things as when we sell prunes and powder puffs and pins?

We have public schools and we have private schools. Even the private schools that have endowments meet part of their expenses with tuition fees. When a young man presents himself for entrance at Harvard, that University doesn't say: "How much is your father worth—\$10,000? All right, we'll charge you so much," then to the next young man: "What's your father worth—\$50,000? All right, we'll charge you five times as much." Private schools don't charge you in proportion to your means to pay. They don't ask you what you are worth. Tuition is figured out in practically the same way that any manufacturer fixes the price of his goods, the cost of production and what it will bring in the open market. The consumer pays for benefits received.

Public schools, from the kindergarten to the state universities, are supported by taxes. All of the people of the state are benefited by having the schools there. If this point is not quite clear, ask yourself whether you would rather buy a home in a state well supplied with public schools or not. What is there peculiar about the public schools that their maintenance should be figured on any different basis than the upkeep of private schools? Your taxes should be figured according to what the service of government is worth, not according to what you are worth.

Some people receive more benefit than others from the services of government, and they should pay more. Marshall Field charges more when you select a greater quantity or a better quality of goods. Let the government do likewise. If it does, it will not need to know whether you tell time by a wrist watch or by the sun, whether your radio is an R.C.A. or a cigar box, whether you buy your diamonds at Tiffany's or at Woolworth's. The government will be interested in only one thing—how much are you benefited by its various departments, and your tax bill will be figured on that basis.

In the next issue of Tax Facts, we will explain how to find out who is benefited most and who least, that we may arrive at a just and reasonable basis for taxation.

N. C.

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the whole state. The Joint Legislative Committee has done well to refuse to recommend that the modern State of California should revert to the tax system of a more primitive economic age, a tax system that had already been outgrown when it was abandoned twenty years ago.

## 2. Reducing the County School Tax.

The recommendation of the Joint Legislative Committee on taxation that the state constitution be amended so as to relieve the counties from the requirement of raising certain specified sums for the support of the public schools in the counties is wholly bad. Local taxes for school purposes are too high, but the place where the relief should be given is in the local school districts, not to the counties or to the state.

Education is more of a state duty and less a local responsibility than we have hitherto thought. Children educated in one school district are very apt to move to another when they grow up. They are not "permanent local improvements," and the expense of educating them should be more largely carried by the larger communities of the county and state.

The school districts are now carrying the largest part of the expense of our public school system. Thus the Los Angeles City School district pays more of the expense of each pupil than does either the county or the state. This is doubtless the general rule. It not only works out inequitably to the local taxpayers, but to the local school children, also. One local school district may be rich because of fine homes, great oil wells or other reasons, yet have but few children in it. Such a district can give its few children a fine school system with a low school tax rate. An adjoining school district may have cheap property values, lots of children and an inadequate school system with a very high school tax rate. By increasing the contributions of the state and counties to our public school system, and at the same time decreasing the contributions of the local school districts, the quality of our schools and the various school tax rates would be made more uniform throughout the state. The school moneys should be raised where the property values are and spent where the school children are.

The recommendation of the Joint Legislative Committee on Taxation that we relieve the counties of some of their present financial responsibility for our public school system would make matters worse than they are. It is a distressingly bad recommendation.

Our newspapers are giving us a cheerful little earful about the low price of elegant fur coats. Buy one now for those long, chilly days in the breadline.—*The New Yorker*.

## JUST FIGURES

Just figures, but they tell rather an interesting story: The Industrial Department of the Los Angeles Chamber of Commerce publishes in its November bulletin, some facts about industrial development in four counties of Southern California for 1929. There are 197 different lines of manufacturing industry that are operated on the factory system. A few figures are given to illustrate what this development means to Southern California by employing labor, providing payrolls and producing wealth.

Petroleum and Products (fifty-nine refining companies) employees—13,788; average annual payroll—\$31,500,000; value of product \$250,000,000.

Motion Pictures (sixty-five studios) employees—14,409; average annual payroll—\$70,000,000; output (wholesale value) \$150,000,000.

Seven acres of vacant land (Los Angeles County) employees—0; average annual payroll—0; value of product—0.

Metal Trades (976 establishments) employees—37,500; annual payroll—\$75,000,000; value of output—\$213,000,000.

Rubber (four tire companies) employees—6,000; payroll—\$11,300,000; value of output—\$56,500,000.

Thirty-five acres of vacant land (San Bernardino County) employees—0; average annual payroll—0; value of output—0.

Wearing Apparel (465 establishments) employees—15,000; wages—\$20,000,000; value of product—\$58,000,000.

Woodworking (176 concerns) employees—7,064; payroll—\$12,000,000; value of output—\$33,000,000.

Twenty-two acres of vacant land (Riverside County) employees—0; annual payroll—0; value of output—0.

The vacant land doesn't make a very good showing, does it? The sixty-four acres mentioned for illustration are only a drop in the bucket compared with the miles and miles of vacant land in the counties referred to, land that is being held out of use for an advance in real estate while men are begging for jobs and the chamber of commerce is doing its best to induce manufacturers to come here to employ our labor, to provide us with payrolls that will mean increased business for everybody, and to produce some of the things that we want and need. While the industrial plants just mentioned are humming along, the vacant land across the way is not employing one man, is not paying one cent in wages, and is not producing one nickel's worth of the world's wealth.

All that goes up is bound to come down, except taxation.—*Dallas News*.

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Published Monthly  
By The Tax Relief Association of California  
412 American Bank Building, Los Angeles, Calif.  
Phone: Tucker 2417

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Subscription per year 50 cents

Vol. IX. Los Angeles, Cal., February, 1931 No.10

## HOME TO MOTHER

A dispatch from Washington says: "Thousands of city dwellers are seeking to find out if there's a place for them in the big open spaces of the West.

"At a rate of 400 to 600 a day their letters are piling up at the General Land Office. They want to know how to go about filing claims for homesteads on public lands. Long-time employees of the Land Office recalled today that in each of the depressions of the past thirty years applications for government lands doubled and trebled. . . . Thousands of the land seekers belong to the 'white-collar' class of workers who despite agriculture's troubles fondly believe it would be easier to grow the food they are finding it difficult to buy."

When it becomes increasingly difficult to purchase the necessities of life in city markets, we have an instinctive feeling that if we could get back to the source of supplies, we would be all right. Vegetables grow in the ground; let's get some ground. The fact that so many farmers are being fed by the Red Cross because they raised an oversupply of wheat before the drouth came, doesn't discourage these back to the land folk.

Many people have the idea that it is the farmer who uses land and produces the food and clothing of the world. Wheat, sugar, wool—all the commodities that we use are not actually or completely produced until they reach the consumer. The crew of the train that carries the food to market, clerks in stores, stenographers of business concerns, carpenters and contractors, mill and factory workers, all are engaged in getting the raw materials from the fields and forests to the ultimate consumers, and by so doing they also become producers of the world's wealth. If this material is held up anywhere along the line, in the fields, in the granaries or warehouses, on the shelves of the merchant or manufacturer, it will be a loss to the producers who have labored and to society that needs it. Held up and lost it will be if the would-be consumers haven't the money to pay for it. Our "over-supply" of wheat and cotton and whatnot, and our idle mills testify to this condition.

Men will not have wages to buy these things unless they have jobs. They will not have jobs unless land is brought into use. It is just as necessary for the city dweller to have access to land as for the farmer to possess fertile fields. Business cannot be carried on anywhere except on land. Even stunt aviators who stay in the air for two or three weeks must be kept going by an assistant plane that comes direct from the ground every day to refuel both men and engine.

If those who file claims for land in "the big open spaces of the West," where all the best land is already owned and much of it held out of use for speculative purposes, would or could make use of the wide open spaces of vacant and poorly improved lots in and immediately surrounding Eastern centers of population, they would not need to file claims for homesteads and enter upon that heartbreaking struggle to wrest a precarious living from the stony soil in waste places. Men would have plenty of jobs erecting homes and office buildings, working in furniture factories and textile mills to furnish these buildings, making plows and harvesters for the farmers, building ships and cars to carry crops and manufactured goods to market, and so on through the whole category of productive activities.

People need these things as evidenced by the plea of the Red Cross and Community Chest that are asking for food and clothing and bedding and funds to buy supplies for the "sufferers." Men and women need these things, and men need work. What would be more natural than to put them to work producing the things they need. That is what they would be doing whether they guided a plow in the furrow or sold ribbons in the ten-cent store or kept books for a hardware company. If those who are holding on to their vacant lots would let go and allow those who are begging for work to put them to use, our unemployment problem would be solved.

Back to the land is the only thing that will save civilization, but not back to the plow and the cultivator. We have a surplus of farm products now that we don't know what to do with, can't feed it to the hungry, nobody knows how to do it. Back to the land we must go on the Broadways and Main Streets, yes even the Halsted and Hester streets of our towns and cities, to the city and suburban lots that are being held out of use for speculation.

We've tried our own way long enough, like many an errant son and daughter. It's time to go home to Mother, good old Mother Earth, the Alma Mater of us all.

Now that New Jersey has a rubber paved highway, the traffic laws should be so amended as to prohibit hitting a pedestrian on the first bounce.—Judge.