

# DOING IT THE WRIGHT WAY

## A plan to finance water development in California

*Enclosure A*

By HARLAN TROTT

ONE of the cardinal precepts shared by Mister Roberts' two million shipmates was that there are three ways to do it — the right way, the wrong way and the Navy way.

Something of this three-sided formula should help to sharpen our appraisal of California's state water and power problems in that there seem to be just three ways to finance the \$13 billion program it will take to redistribute California's precious water supply, namely: the State way, the Federal way or the Wright way.

Assemblyman Vernon Kilpatrick (*Frontier*; March) has come as close as any politician perhaps to spelling out the \$13 billion answer.

"We must find a way to pay for these essential and expensive projects that is fair and equitable and just," says the Democrat from Lynwood.

"Monies in the state special funds belong to all Californians — and 60 per cent of the population lives in southern California. The same is true of tax monies. So when we use either special fund money or tax money for capital investment, we are making the people of southern California pay 60 per cent of the overall capital costs, a large additional amount for transmission costs, adding up to a water cost of \$25 to \$45 an acre foot in the south against \$3 an acre foot in the north (where the water must come from) — and with no certainty of any water from the system for the south."

Mr. Kilpatrick is right. There is no more justice in that than there would be to expect Los Angeles to pay for a new city hall for Redding or Yuba City. The traditional American way always has been for a city or county to pay for its own public improvements.

"Among those who would reap the great benefits" of charging the cost of the proposed Feather River Project against monies paid into the general fund, Assemblyman Kilpatrick warns, "are the large land holders and speculators, who now hold vast acreages" which the new water project would serve.

Samuel Untermyer once said that construction of New York City's subways increased the value of contiguous land more than eight times the total cost of the subways. For some years New York City recaptured this socially created value in land by charging much of the cost of the subways against the holders of the benefitted land. That was why New Yorkers could ride all day for a nickel.

Contrary to general opinion that "taxes is taxes" — and Justice Oliver Wendell Holmes belief in particular

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that all taxes ultimately are passed along to the consumer — nearly all economists, including Adam Smith and John Stuart Mill, agree that a tax on the value of land is the only tax that cannot be passed along to the consumer.

May not the price of farm land be rising while farm crop income is falling because while farm crop incomes (like incomes generally) are being taxed, farm land values are not? Investment capital is taking tax refuge in land ownership today. Large absentee farm holdings are increasing while the percentage of individual farm ownership is falling off alarmingly.

It was Cleveland's onetime mayor Tom Johnson who, after he had fought for the three-cent carfare, eventually came to see and admit that the only ones who benefitted by the three-cent fare in the end were the property owners whose land became more valuable and therefore brought in higher rents because of its benefits from cheap public transportation.

Mr. Kilpatrick, a real estate broker, warns that unless the \$1.5 billion Feather River Project is properly and fairly financed, "speculators will make the cost of a brand new Cadillac for each and every acre they own, and we'll all be paying for it."

### *Basic Assumption Questioned*

Why then must we assume that the cost of the FRP cannot be charged to the holders of the benefitted land instead of being made a burden on water users as such?

Assemblyman Kilpatrick states the economic challenge and the sound political approach clearly. But he does not stop there. Instead, he changes direction: "We must make every effort to have the Federal Government bear as much of the cost as possible." Why?

Why must we tax Mississippi sharecroppers, Michigan auto workers, Iowa farmers, Pennsylvania merchants, Maine lobstermen, or anybody who works for a living to help pay for public works that will guarantee to sprout Cadillacs for holders of California land?

Somebody once likened these fundamental questions to the game of "find the cat." In this childhood pastime, the game was to study the pen-and-ink drawing of a tree until a cat's form could be detected somewhere in the minute foliage.

Harold Ickes came to see the cat very clearly.

As Secretary of the Interior, he saw it was "the age old battle over who is to cash in on the unearned increment in land values created by a public improvement."

C. C. Wright, a lawyer living in the Central Valley, spotted the cat in California's pioneer days and "blew" it up into a statute that was to make him a notable as-

semblyman in a single two-year term.

The so-called Wright Act under which California irrigation districts are organized is now an integral part of the California water code, Divisions 10 and 11. It provides all the basic authority to finance and administer the FRP "equitably and with a maximum of social justice" as Assemblyman Kilpatrick rightly insists.

The California Irrigation Districts Association's Bert Smith is one who "sees the cat." "In view of the constant efforts of the various units of government to find new sources of revenue," Mr. Smith believes "it might be well to examine the revenue-producing provisions of the Irrigation Districts Act of California (the Wright Act) and to weigh their import.

"Specifically, the water code provides that directors of irrigation districts can levy an annual assessment on the land, exclusive of improvements sufficient for its obligations and for other specified purposes. Thus the burden of the tax falls on the land and not on the orchards, the vineyards, the farm structures or the equipment which are a necessary part of the agricultural enterprise. The man who uses his capital and his labor to improve his place is thereby not handicapped—he is actually encouraged for he knows that his irrigation district cannot tax the fruits of his endeavor."

As spokesman for 120 irrigation districts which have reclaimed over 4.5 million acres of semi-arid land in California, Bert Smith is talking about a factual condition and not a theory. He says:

"The provisions in the water code which establish this procedure have brought about noteworthy changes in the agricultural development of California. Many big farms have been broken up into small farms when the original owners found the taxes on their excessive holdings had become burdensome. The owners drew their own conclusions that they might well dispose of their holdings to persons who would improve them. This is recognized as advantageous to the economy of the state."

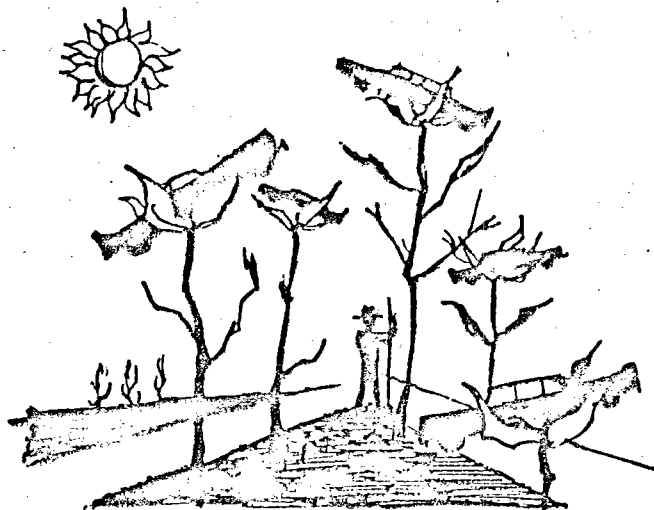
Wherever the Wright Act has been at work in California, it has prevented the farmer's role as a potential land speculator. But, as a farmer, it has made him better off.

This was the goal mapped out by the framers of the 1879 State Constitution, when they wrote into it that "the holding of large tracts of land, uncultivated and unimproved, by individuals or corporations, is against the public interest, and should be discouraged by all means not inconsistent with the rights of private property."

### *Water Projects Locally Financed*

The Wright Act made possible the locally financed multi-purpose reclamation works that transformed Modesto and Turlock and surrounding Stanislaus County from a vast, semi-arid, treeless tract of 81 played-out wheat farms into a flourishing green plain with over 7,000 independent family-sized farms now boasting twice as many registered purebred cattle as any other two counties in the United States, and first in peach canning and second in the United States for dairy products.

This will interest California State Grange members and others who feel that the Federal Government should



One critic's claim: While the people pay the cost of water development, the land sprouts Cadillacs for speculators.

build and own the Feather River Project so as to safeguard the 160-acre water limitation in all federal reclamation projects—a restriction which has not been obeyed in the Central Valley Project, by the way.

Nor if the views of private utilities or the Russ Building farmers in San Francisco (the big absentee landlords) are to prevail at Sacramento is there any use talking about the Wright Act. For the private power companies and the land speculators have inplacably fought this statute from the start. They do not like this law which taxes land according to its value regardless of whether the owner uses water. This law makes it unprofitable to hold valuable land idle waiting for a Cadillac to grow on every acre.

### *"Taxing People into Business"*

The Wright Act has the effect of taxing land into good use. It taxes people into business instead of out of business. For the power to tax is not only the power to destroy, it is also the power to keep alive—if the tax used is a tool, instead of a blackjack.

Big absentee land interests, they who farm the farmers, called the Wright Act "communistic" and tried to get the courts to knock it out. But the farmers in the districts fought back in the courts and in the Legislature whenever the threat arose.

Big landholders were sorry when Assemblyman Wright "saw the cat." Old Henry Miller worst of all. He detested cats!

"For the smaller farmer," says Henry Miller's biographer in Treadwell's *The Cattle King*, irrigation districts "are essential, but for the large landowner and cattle man they were deemed a menace. They compelled development. . . . They transformed control from the large landowner to the populace. They invaded the liberty of action on which the land barons prospered. They gave Henry Miller more trouble than droughts, floods and pests."

Feudal interests contended that the mere promotion of the interests of individuals through the Wright Act, although it might result incidentally in the advancement of the general welfare, is in its essential character a

private and not a public object, and, therefore, could not be made the subject of a tax. Their attorneys' arguments fell before the more advanced view of the U. S. Supreme Court as to the right of the Legislature to legislate for the public welfare. The Act was upheld (164 US 112).

Too few Californians today clearly understand what it is that transformed semi-arid Stanislaus County into a green patchwork of family-owned farms and orchards, nor why much of the land contiguous to Modesto and Turlock Irrigation Districts is still almost as uninhabited as it was when California was a colony of Spain.

Wherever the Wright Act is at work, it is helping to keep government at home in the way Jefferson urged. Citizens are getting more freedom for less government.

In a way, it is too bad that Oregon's Sen. Wayne Morse does not distinguish more clearly between this traditional American way and the current drive of States Righters. Speaking on "Freedom, Federalism and the Future" at the time he received the well-deserved Sidney Hillman award, Senator Morse deplored the aims of "anti-Federalist forces who know they can best serve their selfish economic interests and can best exploit the mass of our people in their quest for power through a weakened Federal Government."

But who ever heard of a States Righter, the loudest of them anyway, advocating a state law which places the obligation for supporting a state or local budget on the holders of land?

Even Oscar Chapman's liberal focus was blurred on California's irrigation districts. More than once, as Secretary of the Interior, Mr. Chapman referred to them as examples of "private enterprise."

Actually, these California multi-purpose reclamation projects are no more private enterprise than the public school districts upon which they are modeled.

### *They Haven't Seen "the Cat"*

Too many state and local authorities are still playing blind man's buff with the problem of how to finance vast public improvements. They have only been groping at the problems implicit in what Paul Blanshard has called "the great land racket" without sensing what Assemblyman Vernon Kilpatrick is taking about, namely, the unseen gambling in land values that is going on throughout the United States. They simply have not seen the cat.

Nor is it all their fault, of course. The following colloquy which took place at a recent meeting of a downtown San Francisco business group shows why:

Robert Tideman: "You spoke of property owners being overburdened. What evidence do you have to support this contention?"

State Controller Robert Kirkwood: "I don't know that I would have special evidence. Perhaps I am relying partly on the fact that I am in politics, and in politics you get responsive to the discussions and opinions you hear."

Senators besieged by the gas lobby can say that again!

But even the oil lobby seems relatively small as compared with the great land racket which Sir Winston Churchill politely described in his "Liberal" days as "the

mother of all forms of monopoly."

A few experts in this field of California water and tax problems, those who see the cat perhaps, say there is ample authority under the time-tested Wright Act to create a "super irrigation district" out of the area to be served by the Feather River Project.

The Los Angeles Water and Power Department's knowledgeable Samuel B. Morris has suggested something like this. He proposes that "each area to receive water from the Feather River Aqueduct should assume its share of the project costs, and construct, operate and own its own water distribution system. There are several of these water service areas, each having local characteristics of its own and which, in my opinion, should be separately organized into the type of government entity best suited to provide to the area the benefits it will receive from the project."

If Mr. Morris would include the byproduct electricity in his proposed plan of "district" ownership, the private power companies may fight it as implacably as they fought the Modesto and Turlock Irrigation Districts.

### *Five Significant Points*

But if the California Legislature will hold the microscope up to the history of Modesto and Turlock, it will find:

1. These two irrigation districts built and financed their multi-purpose reclamation project despite hostility of absentee landlords, private utilities and bankers and—without calling on either Sacramento or Washington for fiscal or even credit aid.

2. When their Don Pedro Dam was dedicated in 1922, it was the world's highest dam, prior to Boulder Dam.

3. Today the vast water and power project is all paid for. The people own it.

4. Modesto and Turlock have distributed their own byproduct electric power at substantially less than rates charged by private utilities in adjoining areas.

5. The project distributes water free of charge.

Here is a blueprint for the Legislature which would distill the Cadillacs out of California's water—if the people will do it the Wright way.

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