THE "SINGLE TAX LIMITED" IN WAR TIME

AN ACCOUNT OF THE OPERATION OF THE CANADIAN LAND TAX EXPERIMENTS UNDER CONDITIONS OF STRESS

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Perhaps the liveliest tax controversy of recent years has centered about the merits of the policy of exempting buildings from taxation, and those who favor this plan have made wide use of the experience of the cities of western Canada to support their position. Great quantities of data have been brought forward in an attempt to prove that the untaxing of improvements in these cities stimulated building activity, increased population, discouraged speculation, promoted home ownership, lessened unemployment, and accomplished other desirable ends. To these arguments the opponents of the policy very frequently retorted that they preferred to wait a few years until the system had passed through a period of depression. Almost any tax system, they argued, could make an attractive showing in prosperous years. The acid test would be applied in hard times.

For three years past western Canada has had hard times. Beginning just before the outbreak of the war and perhaps accentuated in some respects by it, the depression has continued for a period long enough to provide the test awaited by the critics of the plan. This paper attempts to formulate briefly the results of the operation of the "single tax limited", as the plan is often called, under the stress of unusual and abnormal conditions.

The most obvious, noticeable effect, and one whose significance can be variously construed, is a change in the attitude of the people themselves toward the system. The harmonious hymn of praise, which formerly arose from Winnipeg to Victoria, is no longer heard, for not only are there many who have ceased to sing because doubt has entered their hearts, but there are also even more who insist upon chanting savagely a harsh and discordant hymn of hate. This last group is made up of real estate men who were caught by the depression with large quantities of unimproved land on their hands, which they are attempting to carry until happier times. The group of quiet doubters is recruited largely from the public officials and administrators whose enthusiasm has been dampened by the appalling growth of tax arrears.

One hears little these days of the various indirect social effects of the system, the fiscal difficulties being so acute as to demand all the attention. The officials feel that whether the system encourages home ownership or not is a minor matter compared with whether it brings in the money with which to meet the interest on the municipal debt. The owner of real estate is not now interested in the claim that the system makes it easier for him to build. It would be economic suicide for him to build under existing conditions. What he is concerned with is where he can find the money to pay the taxes on his holdings. Building activity ceased almost entirely with the outbreak of the war. Population almost everywhere decreased, some cities losing nearly half their inhabitants. What the result of this upon rents was can easily be understood. Under conditions of this sort it is idle to search for minor indirect social effects of the tax system.

Three years ago a resident of Saskatchewan whimsically complained that the primary test of culture in his community was one's knowledge of local realty values. Today it would be more nearly correct to say that the test is one's familiarity with the arrears of taxes act. Certainly the collection difficulties are serious enough to cause very grave concern. In Regina, which has the best record of any city of Saskatchewan, less than two-thirds of the 1916 levy was collected promptly; while in Swift Current, which has the poorest record of any of the Saskatchewan cities, less than one-third of the 1916 taxes was paid on time. In Vancouver the general levy for 1916 was $3,208,217; [1] of this there passed into arrears the

[1] Annual report, city of Vancouver, 1916, page 19. Rebates are excluded.

sum of $1,362,282. In some cases substantial portions of the arrears are finally paid, but everywhere they have accumulated until they have reached alarming proportions. For example, the total taxes receivable in Edmonton amounted at the end of 1916 to $5,250,257.[1] Vancouver total arrears at the same date amounted to $4,219,211,[2] and Victoria to $2,332,378.[3]

These arrears are financed in various ways. In Regina most of the money has been advanced by the banks. In Saskatoon a large portion consists of unpaid contributions to sinking and depreciation funds. In Edmonton short term debentures have been issued to cover part of the arrears. Whatever the plan, these arrears are a source of much embarrassment. The cities differ also in their policy toward the enforcement of collections. In Saskatchewan the tax sale is held promptly after taxes have been six months in arrears. In Edmonton, Vancouver, and Victoria no tax sales have been held for years. The Saskatchewan tax sales have not proved to be a solution of the difficulty since, because of the lack of other buyers, the cities have found it necessary to bid in the real estate in large quantities. Indeed in the case of no city have outside bidders appeared in sufficient numbers to absorb even one-half the offerings. Consequently, instead of the revenue which the cities really want, they secure the lands, for which they have no present use, and which form a decidedly "slow" asset.

It has been contended that these difficulties of collection are not due to the fact that the taxes are concentrated on land values, but that the same situation would have developed with any system under the peculiar circumstances which have been present. Certainly the difficulties have been sufficiently serious everywhere, but such data as are available tend to show that land values form the least stable portion of the tax bases, and that those cities which have depended upon land most heavily are those which have had the greatest difficulty

1 City of Edmonton, Financial statement and reports, 1916, page 16.

2 Including frontage taxes. Report, 1916, page 6.

3 Annual reports, 1916, page 26.

in collecting taxes. Taking, for example, the cities of Saskatchewan, it is found that the order in which they stand with regard to success in making collections promptly is almost exactly the reverse of the order in which they stand in regard to their dependence upon land as a source of revenue. In other words, there is an almost perfect negative correlation, tending to show that the more land tax the more difficulty, and the less land tax the less difficulty, in collecting taxes promptly.[1]

The reasons for the peculiar difficulty which has been experienced in collecting land taxes are apparent when the conditions in the region are understood. Land values are predominantly speculative. Assessments, it is true, have always been high, but rates have been low and a good market has existed for land, so that it was usually easy to realize upon the investment. The advent of the depression radically altered this; assessments remained high, rates increased, and the market disappeared. As a typical case, consider the changed position of a man of limited resources who had purchased a vacant lot as a speculation. Taxes, if he took them into account at all, he thought of as a bothersome but insignificant type of fee which he had to pay to the public treasury for the privilege of speculating. Receiving no returns from the land, it was necessary for him, of course, to draw upon his income from other sources to pay his taxes, but the prize for which he was playing was normally so large in comparison with this fee as to render it of slight importance. This speculator was placed in a peculiarly weak position by the depression for, at the same time when the prize for which he was playing diminished in value, the fee or tax for the privilege of continuing his specu-

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	Order of success in collecting taxes promptly	Order of degree of dependence on land values, excluding special assessments	Order of degree of dependence on land values, including special assessments
Regina	1	6	5
Moose Jaw	2	5	6
Saskatoon	3	4	4
Prince Albert	4	2	2
North Battleford	5	3	3
Swift Current	6	1	1

lation increased in amount. Moreover, it was often less easy for him to secure the money with which to pay his fee. These factors combined in many cases to make the proposition so unattractive that the speculator abandoned it as a "bad bet".

This is exactly what has happened in so many cases in the Canadian municipalities. If a speculator chooses no longer to carry his land, there is no way of compelling him to do so. There are doubtless some cases of owners paying their taxes on land even after it is no longer economically wise, but in such cases the owners are either ignorant of the true conditions or influenced in their action by other motives, such, for example, as a desire not to be known in the community as one who does not meet his every obligation. As one citizen remarked, "To be a good citizen one must sometimes be an economic fool". It is apparent, therefore, that recent history in western Canada demonstrates clearly the existence of a definite limit to the tax which can be imposed on vacant land. The same proposition holds true but in a different degree in the case of improved land. This, fundamentally, is the explanation of the collection difficulties experienced. There is a definite point beyond which gamblers will not continue to pay. In many municipalities the tax has been pushed beyond the limits of its fiscal capacity and, if it is desired to preserve land values as a part of the tax base, there is no option but to reduce the tax to a sum commensurate with the prize which the speculator can hope to gain. This usually involves seeking revenue from sources other than land.

It should be carefully noted, however, that nothing which has been said affects the attractiveness of the policy of exempting improvements during periods of prosperity. Conditions in western Canada are at present admittedly abnormal. Indeed, there is every reason both from the economic and ethical points of view why the advantage gained through the assertion of the public's claim to a large portion of the ground rent should be preserved. But even though it be admitted that large dependence upon land values is an attractive policy when a community can afford it, the experiences of the Canadian cities during the past three years show that some cities under some circumstances find great difficulty in financing themselves under this plan. If great dependence is to be placed upon speculative land values as a source of municipal revenue, it is, therefore, the part of wisdom to have available supplementary sources which can be utilized before placing a strain upon the land tax which will cause it to crumble and break down.

Little has yet been done in the Canadian municipalities in the direction of relieving the situation. Last year,[1] it is true, the towns and villages of Alberta were permitted to broaden their tax bases by assessing buildings and businesses, and a number of these small municipalities accordingly have abandoned the plan of taxing land value only. In Saskatchewan a considerable number[2] of the villages and some of the towns have this year taken similar action. In Winnipeg, where improvements are taxed at two-thirds their value, a commission reported recently that the "primary aim" of the changes they suggested was "to relieve rather than to increase the burden of taxation upon real estate".[3] The government of Saskatchewan is said to be considering the introduction of legislation this month (November, 1917) broadening the basis of taxation in the municipalities generally throughout the province. In the city of Medicine Hat, Alberta, a business tax was imposed this year (1917) and a committee appointed by the council reported in favor of taxing improvements in 1918. Edmonton has secured amendments to its charter permitting the taxation of buildings and business, and the question is to be decided by a vote of the people at the next municipal election. The Edmonton auditors reported in May, 1917, that it appeared to them that "the time has arrived when it is absolutely necessary that some measures should be adopted to establish a closer relationship than at present exists between the actual realized revenue and the nominal revenue".[4] Vancouver secured a charter amendment permitting

1 Report of the department of municipal affairs, 1916, pp. 9, 16.

2 One estimate gives 12.

3 Report of the board of valuation and revision of systems of assessment and taxation, Winnipeg, 1917, page 18.

4 Edmonton, Financial statements and reports, 1916, page 13.

a business tax, but thus far has made no definite change in the system.

Doubtless the most satisfactory solution of the problem would be furnished by the arrival of a period of prosperity which can be anticipated with the ending of the war, and this is the solution which the municipalities are hoping to utilize. It is evident, however, that unless prosperity arrives very soon the cities of western Canada will have no choice but to abandon, temporarily at least, the plan of the "single tax limited".