

- E D I T O R I A L -

TO EASE THE TAX BURDEN.

Ernest J. Farmer.

The present tax burden is not merely something about which to grumble. In Canada, taxes now take 34 percent of the gross national product. As the GNP figures make no allowance for the depreciation of durable capital goods, the GNP is about ten percent greater than the NNP, or net national product, which is the actual national income. Taxes take close to three-eighths of the national income. The worst is still to come; in Great Britain taxes threaten soon to take a full half on the national income, and Canada is moving in the same direction. The tax burden causes constant anxiety to a large proportion of the Canadian people, with actual privation to not a few. Definitely, it is something to which good citizens will give careful and prolonged consideration.

A world-famous piano teacher said to many of his pupils: "Think ten times and play once". When this saying was quoted at a gathering of piano teachers, the oldest one present remarked: "My pupils want to play ten times and not think at all". More than ninety-five percent of what is currently said, written or printed about taxation, especially about the so-called "property tax", appears to be the product of people who have taken for their motto: "Talk a hundred times and don't think at all". Most of these people profess great sympathy for the home-owner and immediately proceed to demonstrate their sympathy by advocating the replacement of a part of the realty tax, of which the home-owner at most 25 percent, by an increase in the sales tax, of which he pays over 60 percent.

All methods by which the tax burden might possibly be eased really reduce to three. A larger proportion of the taxes may be levied upon the persons with the

larger incomes, to whom the same amount taken in taxes causes less deprivation or sacrifice. Total governmental spending may be lessened. Or the mode of taxation may be changed in such a way that production, and hence the total income of taxpayers, is increased.

Increased Taxation of the Rich.

Increasing the taxes paid by the rich is the most obvious way to decrease those paid by the poor; hence it is the way most easily understood by those of small knowledge and moderate or low intelligence: hence it is the only way considered by the unthinking -- who are the majority. This way has been applied with partial success in the graduated income tax. But, especially in the United States, this tax has about reached its limit. A taxpayer in the highest income bracket has more to gain by avoiding or evading one dollar in income tax than by increasing his earnings by eleven dollars. Many devices used for the purpose of avoiding income tax have the effect of increasing waste and diminishing production; the final result is to make all classes poorer.

Those who think chiefly in terms of "soaking the rich" have no understanding of the ways in which taxes are shifted from those who hand their cheques to the tax collector to others. A valuable commercial or industrial building excites envy; people think that the man who owns such a building can well afford to pay higher taxes and should be made to do so. In Ontario a surtax, called the "business tax" is levied on such a building. But this tax is paid, not by the owner but by the user, who in turn substracts a part of the tax from the wages of those who work in the building and adds a part to the price of the goods made or handled there. Of course this is not done openly, but it is done effectively.

The Royal Commission on Taxation (Carter) has given serious consideration only to this first way,

the least important of the three, of easing the tax load. It has brought forward proposals for taxation of gains now classed as "capital gains" and so not taxed in Canada and taxed at a comparatively low rate in the United States. Especially as regards gains from land speculation, these proposals may have some merit; but they can have only limited effect -- they are clumsy.

Decreasing the Total Tax Load.

There is immensely more pressure brought upon government bodies to increase spending, and hence the tax burden, than to decrease it. The result is the form of governmental bankruptcy known as "inflation".

There are however ways in which governmental expenditures can be lessened without impairing essential services. One is, by eliminating slums. Slums, as an institution are neither beautiful, nor pleasant, nor profitable: they are maintained at great public expense. This is done by raising most of the municipal revenue by taxes levied on buildings according to value. The result is, that slumlords receive their public services for from one-fifth to one-tenth of cost. The more noisome the slum, the more injury it does to the public, the smaller the fraction of cost paid by the slumlord. The effect is that of an enormous subsidy, which makes slums unnaturally profitable to their owners. There has never been a survey in any Canadian city, such as have been made in a good many American cities, to show what part of the civic revenue goes to subsidize slums; but in Toronto it undoubtedly amounts to scores of millions annually.

Another way in which the tax burden may be reduced is, to put an end to subsidized housing. It is true, that a great many Canadians need better housing, and that several thousands of persons have greatly benefited by being to occupy tolerable apartments on payment of a fraction of the rent generally charged for similar accommodation. But subsidized housing is a nitwit's

method of dealing with the housing shortage. The number of qualified but unsatisfied applicants is increasing constantly; many of these are being taxed for the benefit of the lucky ones, so much so that their need becomes increasingly urgent. In New York more than two billion dollars - mostly federal money - has been spent on subsidized housing; according to recent reports there are 100,000 more substandard houses now occupied than in 1961.

Expenditures may be further reduced by curtailing other forms of "welfare". This does not mean, of course, that the destitute should be left to starve. But most of the destitute are so because of unemployment. The thing needed is - not to give them employment, (again a nitwit's method), but abolish the uneconomic and iniquitous practices which keep them from finding employment. If any of our readers are not already clear as to how this can be done, the following page or two should make it clear.

Increasing Production.

Increasing production - even without altering income distribution - obviously decreases the tax burden - the same revenue is raised with lower tax rates. Also, with only the rarest exceptions, it increases employment.

There is no way in which a government can directly stimulate production. Governments can, and do, stimulate production in some lines at the cost of diminishing it in greater amount in other lines. Governments do, more or less successfully, favor production by enforcing law and order: any form of robbery compels people to spend what should be productive energy merely defending what they have, often by concealment. Governments do curtail production by taxing wealth in various ways - also by granting land titles on such terms that there is often more incentive to hold land idle or poorly used than by using it fully for production.

One should not forget that a land title gives the grantee not only the privilege of making exclusive use of it, or of collecting rent from anyone else who makes use of it. Most important of all, it confers the privilege of forbidding any use of it: of this privilege speculators make extensive use.

Taxes on labor products in any form, of course, lessen the incentive to produce. Taxes on site value make it more profitable to use it for maximum production. The effect of placing all municipal taxes upon site values may be observed by study of Canada Year Book figures of production and wealth in the Canadian provinces. In 1867 Nova Scotia and New Brunswick were the wealthiest provinces in Canada. But they kept site value taxes very low by underassessing land and by taxing "personal property", even including mortgages and bonds. On the other hand, in 1890 British Columbia passed legislation empowering municipal councils to tax buildings on only part of the assessment, or to exempt them altogether. Alberta and Saskatchewan, on attaining provincial status in 1905, soon passed very similar legislation. So many councils took advantage of this legislation that from 1910 to about 1925 almost ninety percent of municipal tax revenue was raised by taxes on the sites.

Production increased to such an extent that in 1926 Saskatchewan, the poorest of the three westernmost provinces, enjoyed per capita wealth of \$3,559, more than double that of New Brunswick, the richest of the Maritimes (\$1,782), and actually excelling that of Ontario, the province most favored by nature and the Dominion protective tariff (\$2,267). One can think of other factors which possibly contributed to this amazing outburst of productive energy, but they are far from explaining it away. From 1922 on there was a reaction; one council after another imposed taxes upon buildings at increasing rates. (This contrary to the will of the electors). But these provinces still have a greater measure of site value taxation than

those farther east. In Saskatchewan about 80 percent of municipal taxation is still levied upon site values. The DBS reports per capita income for 1966 as: Nova Scotia, \$1,575; New Brunswick, \$1,475; Ontario, \$2,454; Manitoba, \$2,054; Saskatchewan, \$2,237; Alberta, \$2,215; British Columbia, \$2,438. Note that, in spite of the advantages of Manitoba over Saskatchewan in climate, soil fertility, timber and available mineral resources and proximity to markets and sources of supply, in all but a few years Saskatchewan has maintained higher per capita income.

There is a close correspondence between high production and high employment. Unemployment is high in the Maritimes, low in the West. Welfare expenditures are high where unemployment is severe. It is ironic that Saskatchewan should be required to subsidize the naturally richer New Brunswick, simply because it orders its affairs better. There is also a close correspondence between the degree of site value taxation and equity in income distribution. Saskatchewan is the province with the most equable income distribution -- and has always, even when its medical services were notoriously deficient, had the highest health standards.

In short: whether it is a matter of bringing about more equable income distribution, of reducing governmental expenditures, or of promoting production, site value taxation is at present the only way of easing the tax burden which deserves the serious consideration of an intelligent man.

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The grinding face of poverty, which is three times as prevalent among Negroes as among whites, ranks higher in the mind of the Negro as a source of discontent than do biases, discrimination or even votes, concludes the report edited by Dr. Herbert Northrop of the University of Pennsylvania. The report emphasizes that em-