

LAND VALUE TAXATION IN WESTERN CANADA

The "Tax Arrears" and a Reply to Allegations

(Reprinted from *LAND & LIBERTY*, August, 1922, and submitted to the Conference)

The critics and opponents of Land Value Taxation have hit upon the discovery that certain towns in Western Canada have been or are in financial trouble; that they did for a time raise all or most of their revenue from a rate on land value; that they have allowed large sums of uncollected taxes to accumulate, and that they have returned to or adopted the taxation of improvements in addition to rating the value of land. We are told, for example, that Edmonton in Alberta collected in 1916 only \$2,235,126 from its rate on the value of land alone. Its tax arrears at the end of 1916 were \$5,250,257. It has since begun to tax improvements. Another example is Vancouver, in British Columbia, which collected in 1918 by its land value rate \$3,131,557, and its tax arrears at the end of 1918 were \$5,456,453. In 1919 Vancouver taxed improvements (in addition to taxing land at 100 per cent of its value) to the extent of 25 per cent of their value, and the tax was increased in 1920 by assessing improvements at 50 per cent of their value.

How easy to tear these facts away from their relation to other facts, to present only the former and deliberately conceal the latter! How easy to assert that here you have cause and effect; the Taxation of Land Value was tried—it did not produce enough revenue—and it has failed! These allegations have been made before, and it is worth while examining the case in some detail.

THE FRUITS OF LAND SPECULATION

Recent municipal finance in Western Canada is but one chapter in the history of extravagant land speculation, that began in 1910 and came to a climax in 1914, the inevitable crash being precipitated by the war. There had been a rapid growth of population, and the construction of thousands of miles of railway. Land values were "boomed" until they were on a purely fictitious basis. That inflation had certain inevitable results. Sir James Aitken, the Lieutenant-Governor of Manitoba, declared in Winnipeg, on 18th December, 1917, that there were 100,600,000 acres of good arable land in Canada in private ownership, of which only one-third was being used for productive purposes. In Western Canada, according to the Report published in 1918 by Mr. Thomas Adams, Town Planning Adviser of the Canadian Commission of Conservation, there were 30,000,000 acres of idle land, a great part contiguous to the railways, and of good quality. All this land was held

out of use for a further rise in price awaiting the increased population which never came. Meanwhile, the towns and cities indulged in the gamble in urban land, and the fever overcame responsible town councils as well as private operators in the real estate market. A great burden of debt was assumed by nearly all the municipalities in the constant push to raise values still higher by spending public money on absurdly ambitious undertakings, which in turn helped to advertise the vacant lots of the land speculators.

A SASKATCHEWAN REPORT

In 1917, Dr. Robert Murray Haig submitted an official Report to the Saskatchewan Government on "Taxation in the Urban Municipalities," and the following paragraphs are illuminating:—

When taxes have been in arrears six months the realty against which the taxes are charged is advertised to be sold, the sale taking place in the fall of the year. Unless redeemed within two years from the date of sale, application for title to the realty can be made by the purchasers of the tax sale certificates. The first group of tax sales under this law was held in 1915, and the second in 1916.

In the case of no city did private purchasers appear at the sale in sufficient force to absorb even as much as one-half of the offering and the large quantities of tax sale certificates which, as a result, fell into the hands of the cities, are for the most part still held by them.

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 his fee as to render it of slight importance. Nevertheless this speculator is placed in a peculiarly weak position by the depression, for at the same time when the prize for which he is playing diminishes in value, the fee or tax for the privilege of continuing his speculation increases in amount. Moreover, it is often more difficult for him to secure the money with which to pay his fee. These factors combine in many cases to make the proposition so unattractive that the speculator abandons it as a "bad bet." This is exactly what has happened in so many cases in the municipalities of Saskatchewan. If a speculator chooses no longer to carry his land, there is no way of compelling him to do so.

There is no legal obstacle to higher tax rates, but there is an insurmountable economic obstacle, in that such a course would in all probability result in the surrender of more land for taxes, rather than in an increase of revenue. No relief, but instead sudden and complete disaster, would probably follow any attempt to realize immediately upon the lands which are being surrendered to the municipalities for taxes. To offer them in large quantities for the amount of the charges against them means that the city itself establishes a price for realty at a small fraction of the values which it seeks to maintain on its assessment rolls as true market values.

In Regina practically all its arrears, which are substantial, have been already spent, that is, loans have been secured from the bank in anticipation of collections, and the money paid out from the treasury. The bank, therefore, is in a position to dictate to some extent the policy of the city in regard to its uncollected

taxes, and to any property the city may acquire by the tax sale process.

The Saskatoon arrears appear for the most part in the form of deferred payments to sinking and depreciation funds, although a substantial sum, secured by arrears, is due to the bank. The arrears are a staggering problem in Prince Albert, where the loan from the bank approximates \$450,000, and almost a trifling one in North Battleford, where the bank debt is only about \$40,000. Swift Current, with a note at the bank of about \$150,000, secured by arrears, has a situation more urgent than several of the other cities.

It is easily understood from these statements that "tax arrears" are part of a definite policy to maintain the assessed values of land, and set them against the liabilities and the obligations of the municipalities.

THE TRUE CAUSE OF ARREARS

The Report of the Assessment and Taxation Commission of the Province of Manitoba, published in 1919, refers repeatedly to the harm done by the speculative enterprises of municipalities in Alberta, Saskatchewan and British Columbia. The "tax arrears" were a consequence, and they accumulated owing to the forbearance and culpable weakness of the town councils to whom money was due from taxpayers. The matter is summed up in these words:—

While by statute the collector has a right of action for recovery of unpaid taxes, he may, if he deems it advisable, levy such delinquent taxes by sale of the lands. . . . It is in the discretion of the Council to extend by by-law the time for the levy of taxes by sale of the lands to the year following that in which they are due. Thus the delinquent tax vote becomes a powerful factor making for delay, through its influence at the election of councils and the intimidation of councillors; for at the intervening council election that vote is invariably cast for candidates—not infrequently themselves tax delinquents—who favour postponing tax sales to next year, or, for that matter, to the Greek Kalends.

The subordination of municipal finance to municipal politics has in this as in other respects been productive of the most serious evils.

The inevitable outcome has been an enormous accumulation of arrears of taxes. . . . This growth of arrears has been accompanied by heavy borrowing, in order to meet current expenses of administration and to finance extravagant undertakings handed on in many cases as a legacy from the period of feverish development.

It is significant that in Vancouver, where at the end of 1918 the debt was \$41,669,196 and the tax arrears were \$456,453, there had been no tax sales since 1909. *The Vancouver City Council apparently took no steps to collect the arrears by proceeding as it could do against the defaulters, and obliging them if they could not pay to surrender their land.*

LEGISLATION TO ENFORCE TAX COLLECTION

The land value rate was not, in fact, levied in these cases. The interests of the speculators coincided with the municipal scheme of trying to finance the city through a period of depression on the basis of real estate valuations which had no existence in fact.

Since the report of the Manitoba Commission was published the provincial parliaments in Alberta, Saskatchewan

and British Columbia have passed legislation requiring compulsory municipal action against defaulters, and simplifying title to land purchased as the result of tax sales.

This legislation has had a good effect. The Annual Report of the Inspector of Municipalities in British Columbia for the year ended 31st December, 1920, shows that the total arrears of taxes were \$8,248,455 as compared with \$14,631,217 at the end of the year 1918, the last mentioned being the highest point on record. In Vancouver the arrears declined from \$5,456,453 in 1918 to \$3,817,326 in 1920.

It is important to notice that in British Columbia the lands held by the municipalities, which were taken over through tax sale proceedings, increased during the year 1920 from \$3,385,871 to \$5,247,788.

The Annual Report of the Department of Municipal Affairs in Alberta, for the year 1920, states that the Tax Recovery Act of 1919 became operative on 1st July, 1920, and in nearly all of the province the sale of land under that Act was carried out. The large increase in tax collections was largely due to that Act.

THE EVIDENCE OF AN EX-MAYOR

Mr. Louis D. Taylor, ex-Mayor of Vancouver, gives a description of events in South Vancouver, which further disposes of the alleged "failure of the Single Tax." Writing in the LOS ANGELES TIMES of 15th January, 1920, Mr. Taylor declares:—

South Vancouver troubles started with the collapse of the real estate boom, which reached its apex in 1914. To understand the situation, one must consider that the Municipality of South Vancouver covers 14½ square miles, and being adjacent to Vancouver City to the south, it was, from 1907 to 1914, subject to the greatest land speculation ever seen in British Columbia. Before 1907 it had a very small population. The population to-day is in the neighbourhood of 25,000, and is composed mostly of the labouring class, who own their own homes. During boom days, real estate speculators bought acreage, subdivided it into mostly 25 and 33 foot lots. In order to make these lots accessible, roads had to be built, side-walks laid, water and sewer systems constructed, trunk line streets paved, and all this at the expense of the municipality. The consequence of this unreasonable real estate boom was, when it collapsed in 1914, that thousands and thousands of lots were in the hands of speculators who had made only the first or second payment. They had purchased these lots on a basis of a city with a million population, and in 1914 found that with the declaration of war and the condition of the money market, they could not sell their property or make further payments. Thus they did not attempt to pay taxes.

Again, there were mortgage companies which had advanced money to the parties who had originally subdivided large tracts. It was difficult to push foreclosure proceedings to a successful issue on account of the Moratorium Act. Therefore, taxes were allowed to accumulate. The Canadian Pacific Railway Company holds thousands of acres in the municipality. They, together with other large interests, succeeded in persuading the Commissioner to tax improvements, thus getting their assessments reduced and the rate lowered. The appointment of a Commissioner was made without the consent of the residents of South Vancouver, who had a duly elected mayor and council. It was the result of a political play by the party in power. They saw a