

Canada

by HERBERT T. OWENS

BY THE OPENING OF WORLD WAR I, THE PRINCIPLE OF levying municipal taxes more on land values and less on improvements had become an integral part of municipal practice in the four western provinces of Canada—British Columbia, Alberta, Saskatchewan and Manitoba. No province had made the system mandatory for all municipalities, but all four had enacted legislation permitting their local governing bodies to exempt improvements in whole or in part, and many of the municipalities, rural and urban, were—and a number still are—taking advantage of that opportunity.

The Canadian experience is of sufficient magnitude to merit serious consideration and study. These studies have been made and published in considerable detail.¹ Our purpose here, therefore, will be to give only a broad

¹The first complete and probably the most extensive report is *The Exemption of Improvements from Taxation in Canada and the United States*, by Robert Murray Haig (New York, 1915). This report was made after Dr. Haig's visit to the provinces in 1914 and has been widely drawn upon by others. A more recent study was made by the present author and the results have been published in a brochure entitled *Land Value Taxation in Canadian Local Government* (The International Committee for Land Value Taxation and Free Trade and The Henry George Foundation of Canada, Westmount, Quebec, 1953).

outline of the historical aspects and to conserve such space as we have for a discussion of the question least emphasized in other studies—why the tax, as levied, did not prevent land speculation during the boom period. This seeming deficiency on the part of the tax has caused it to be criticized by some economists, and it is therefore important that the point should be investigated.

First we shall review the pertinent legislation and see how the situation stands today.

BRITISH COLUMBIA

The practice of taxing land values alone began in 1874 in Nanaimo, which was permitted to exempt improvements entirely from the property tax. This began a trend, and in 1892 this option was extended to the other municipalities within the province. In that year the General Municipal Act replaced existing city charters, and under it all municipalities thereafter were organized. This act specified that improvements should not be taxed at more than 50 per cent of their assessed value and permitted complete exemption if desired.

By 1914, of the 33 cities then existing, 15 were exempting improvements 100 per cent and 18 were granting exemptions ranging from 75 per cent to the 50 per cent minimum.

All but four of the 28 district municipalities were exempting improvements completely.

Wild lands were taxed by the Provincial Government at 4 per cent of their value, and levies were made on coal and timber lands.

In British Columbia there are 104 taxing units—34 cities and the city of Vancouver, 28 district municipalities, and 41 villages. According to 1952 statistics, the over-all picture is that, of these 104 municipalities, 54 are exempting improvements 50 per cent; 13 are granting more than 50 per cent, and 35 less than 50 per cent. Two, the District of Spallumcheen and the village of Kinnaird, are continuing full exemption.

ALBERTA

As early as 1897, when Alberta was still part of the Northwest Territories, legislation was in force in this region making possible the exemption of improvements from local taxes, and in 1905, when the province was organized, this legislation was continued.

Such progress was made that, by 1914, three of the six cities were exempting improvements 100 per cent; the others were giving 75 per cent, 66⅔ per cent and 20 per cent, respectively.

The Town Act of 1912, applying to 45 of the 47 towns, exempted improvements entirely from taxation.

An amendment to the Village Act, adopted in 1912, made land values the sole basis of revenue in the 93 villages. Other legislation in the same year required the 66 rural municipalities to meet local needs from a land-value tax.

Revisions decreasing exemptions were made in the intervening years; residential property was exempted 50 per cent and commercial property 40 per cent.

A new Town and Village Act, passed in 1951 upon the recommendation of a Royal Commission headed by

Commissioner J. W. Judge,² took the optional privilege away from the towns, villages, municipal districts and local improvement districts, and all these categories are today taxing improvements fully. A year later, a new City Act, effective January 1, 1952, placed all cities, now seven in number, on a uniform mandatory exemption basis of 40 per cent.

Alberta levies some provincial taxes on land, including mineral land; certain grazing leases are let on a rental basis, and a species of land-transfer tax is collected, called the "Unearned Increment Tax."

A significant and increasing portion of provincial revenue in recent years has come from the purchase price for oil leases and rentals and royalties from that source. While in the fiscal year 1930-31 this revenue was only a little under \$200,000, it is interesting to note that in 1950-51 it amounted to more than \$44,000,000; and in 1951-52, when it fell off slightly, it exceeded \$40,000,000. The following table shows the growth of revenue from this source during the indicated years.

The 1952-53 revenues shown in the table represent 38.14 per cent of the provincial budget for that year. In 1953-54 it is estimated that the amounts will be less—\$44,950,000—which will account for approximately 30.08 per cent of the budget.

²Royal Commissions, or Committees of Inquiry, have been established in six of the provinces pursuant to agreements made between the provinces and the Dominion Government, to examine and report upon the matter of provincial-municipal relations. On p. 38 of his report, Alberta's Commissioner Judge comments, "It is perhaps trite to repeat here the argument that repeal of the land tax would amount to a gift to landowners." In partially repealing the exemptions in his province, the Commissioner has, of course, done just that. And not he alone, but the legislators who confirmed his recommendations.

REVENUE FROM PETROLEUM AND NATURAL GAS COLLECTED
BY ALBERTA, 1930-31 TO 1953-54^a

FISCAL YEARS	TOTAL REVENUE FROM FEES, RENTALS, ROYALTIES AND PURCHASE PRICES FOR LEASES
1930-31	\$ 198,256.30
1940-41	869,179.57
1945-46	1,094,731.76
1948-49	13,289,071.30
1949-50	33,449,867.60
1950-51	44,339,438.80
1951-52	40,005,601.35
1952-53	57,219,580.24
1953-54	44,950,000.00*

^aFigures supplied by the Dominion Bureau of Statistics, Ottawa, Public Finance and Transportation Division.

*Estimated.

SASKATCHEWAN

The City Act, 1908-9, specified that improvements should not be assessed at more than 60 per cent of their actual value, and an amendment to that act, adopted a year later, permitted this percentage to be reduced at a maximum rate of 15 per cent per year until full exemption had been attained.

By 1914 all of Saskatchewan's seven cities were granting exemptions in excess of the legal minimum. Two gave 85 per cent; one granted 75 per cent; three gave 70 per cent, and in only one city was the exemption as low as 55 per cent.

The Town Act of 1910-11 likewise set the minimum exemption for the towns at 40 per cent and allowed a further annual reduction of 15 per cent. In 1914 three quarters of the 71 towns in the province were operating

at the minimum exemption; the rest were granting more—some towns as high as 75 per cent.

The Village Act, 1908-9, provided for a minimum exemption of 40 per cent, and permitted total exemption if two thirds of the resident electors in any village petitioned for the change. Of the 246 villages making assessments in 1915, about three fourths gave the minimum and the remainder granted full exemption.

The Provincial Government levied certain acreage taxes for school purposes and to provide hail insurance, and Saskatchewan was the first province to impose a surtax on vacant land. These provincial taxes were aimed primarily at non-resident landowners, and their effect was to bring large areas under cultivation which previously had been unused.

The organized local governmental areas in this province are now cities, towns, villages and rural municipalities.

At the present time all but one of the cities and towns have stabilized their exemption of improvements at 40 per cent. The one city which has clung to its previous high exemption is the city of Regina, which continues to grant 70 per cent.

In the rural municipalities "land taxation has always been and still is almost the sole revenue source" (report of the Committee on Provincial-Municipal Relations, 1950).

MANITOBA

The Assessment Act adopted around 1913 made land values the principal source of local revenue for the rural

municipalities. For the towns and villages the same act specified that "all real and personal property may be assessed at less than actual value or in some uniform and equitable proportion of actual value so that the rate of taxation shall fall equally upon the same."

Most of the towns and villages operated in compliance with the Assessment Act, taxing land and improvements equally. A few cities went beyond the law in order to exempt improvements partially. These cities were Brandon and Portage la Prairie, which elected to grant 50 per cent and 40 per cent, respectively; Winnipeg, where the city charter was amended in 1909 to allow an exemption of $33\frac{1}{3}$ per cent, and Saint Boniface, where an exemption of 50 per cent was instituted merely by direction of its City Council.

The above was the situation in 1914.

Today all the organized communities in Manitoba—that is, the cities, towns, villages and rural municipalities, exempt improvements $33\frac{1}{3}$ per cent. In considering assessment value, the assessor is required to take into consideration the "advantages and disadvantages of location, the quality of the soil, the annual rental value . . . the value of any standing timber," etc. This is considered to be an enlargement of merely "land in its unimproved state."

EXEMPTION OF FARM IMPROVEMENTS

For more than half a century farm homes and farm buildings in the four provinces have been relieved of a large part of local taxation. According to 1952 information, in the organized municipalities of British Colum-

bia farm homes are taxed, but other farm buildings are exempt up to \$5,000; and in the unorganized municipalities, farm homes as well as farm buildings are exempt. In both organized and unorganized areas, all fruit trees are free from tax.

In Manitoba, to be eligible for complete exemption, "the income from the land or stock must be the owner's or tenant's chief source of livelihood; a 'farm' must contain not less than 40 contiguous acres of land; and a 'market garden' four contiguous acres of land." The 1953 report recommends that farm buildings on farms of 80 acres or more be exempt from municipal taxation, but that on smaller farms and market gardens buildings assessed at more than the assessed value of the land be taxed. As this is written, this recommendation has not been implemented.

In Saskatchewan, all buildings used in connection with the operation of a farm 20 acres or more in size are exempt 100 per cent.

In Alberta, Section 5 of the Assessment Act exempts "farm buildings and other farm improvements on farm lands and livestock and farm implements and farm vehicles used or kept on a farm, and the chattels, implements and equipment of any person, which are used for or in connection with the keeping of bees."

WHY THE SYSTEM SPREAD

We may ask what forces were behind this legislation, the trend and present status of which have just been traced.

The strongest force was undoubtedly economic—the

power of the land-value tax, by exempting improvements, to encourage capital investment. Resident landowners in western Canada were homesteaders who had come from afar to make their way in virgin territory. It was to their interest to encourage anything that promised to assist in increasing land values, and nothing seemed more effective for this purpose than the rapid construction of buildings. They were convinced that a land-value tax would give impetus to building—a conviction well confirmed in later years.

The second force was social—the eagerness of residents to force a contribution from absentee landowners in proportion to the progress in these communities from which they benefited. Among the “absentees” were counted not only those “investors” in foreign countries who had bought land in Canada though never intending to set foot on Canadian soil, but also the Hudson’s Bay Company and the railroads. The Hudson’s Bay Company was the original grantee of the prairie regions, and the railroads had been subsidized by the Dominion Government with grants of land which gave them control over large areas.

Adding to these factors and further increasing popular sentiment was the principle of “equality of opportunity” inherent in the tax. This appealed strongly to the instincts of these hardy pioneers. Then there was, of course, the selfish, understandable desire to keep the improvements they made themselves out of the reach of taxation.

Under these circumstances, it is easy to see why land-value taxation achieved such wide popularity in the

western part of the Dominion, while in the east it made no progress to speak of. In these more densely populated eastern provinces, land values already were established; landed proprietors were more securely entrenched, and there were more vested interests to demand protection.

FACTORS BEHIND THE CANADIAN LAND BOOM

A phenomenon of the period 1900-14 was the enormous increase in land values, particularly in the urban centers. These increases reflected three major influences: (1) increase in population and production; (2) large public expenditures; (3) land speculation. These will be discussed below.

INCREASE IN POPULATION AND PRODUCTION

Commencing in 1897, a vigorous immigration policy was begun by the Dominion Government, and between 1900 and 1915, 2,980,891 new arrivals poured into Canada. More than half settled in the western provinces, where the population grew from 598,169 in 1901 to 2,154,137 in 1916—an over-all increase of 260 per cent.

How many of the newcomers were farmers can be estimated by the increased acreage that went under the plow. In the three prairie provinces this acreage increased more than sixfold—from 5,592,000 acres in 1900 to 34,330,000 acres in 1915, and crop yields were sixteen times greater in the latter year than in the former. The value of agricultural land, of course, rose correspondingly.

Urban population also increased enormously—by 588 per cent in Alberta between 1901 and 1911; by 184 per cent in Manitoba, 126 per cent in British Columbia and 648 per cent in Saskatchewan during the same period.⁴ It was in the urban centers that the appreciation in land values was greatest.

PUBLIC EXPENDITURES

In addition to governmental expenditures on immigration and homesteading, large sums of public and private money went into railway expansion. From 1901 to 1914, railway mileage across the wheat lands increased from 4,141 to 11,709 miles, and it was estimated at the opening of World War I that there were more miles of railways in all Canada per 1,000 inhabitants than in any other country in the world.

The rapid expansion of land values provided revenue, or the expectation of it, for expenditures by local governments that, if not extravagant, were certainly munificent and often premature.

Money was spent on handsome public buildings. Alongside them individuals and corporations erected hotels and shops which even today delight the tastes of modern tourists. In their passion for "bigness," Calgary and Edmonton spread themselves until they covered more acreage than Toronto and rivaled in area the metropolitan city of Montreal, where the population was at least nine times as great. Edmonton constructed "heavy tunnel sewers . . . four, five and six feet in diameter,

⁴*The Taxation of Land Value*, by Yetta Scheftel (Houghton Mifflin Co., Boston, 1916), p. 257.

down fifty feet in the ground,"^{4a} and in other cities millions of dollars went to provide utilities for vacant land that would not be used for decades (but meantime helped to increase the asking price of those who held it). While these public improvements did tend to enhance the value of land, the enhancement was, unfortunately, often at the expense of greatly increasing municipal indebtedness.

LAND SPECULATION

Dr. Haig⁵ gives interesting and convincing facts as to the extent to which the land craze swept western Canada. He estimates that approximately one resident property owner in every four in Calgary, and one in every six in Edmonton, owned an extra lot which he was holding for a rise. He states that in Vancouver workmen, instead of paying off the mortgages on their homes, invested in vacant land, and in Victoria an assessor wrote that "a large number" of the residents "own an extra lot which they hold for speculative purposes." In Saskatoon, even in the poor residence districts, one man in twelve or fifteen held idle real estate. Speculation in city properties was "largely in the hands of foreign investors and a class of semi-professional real estate dealers" living in London, according to an item in the *London Economist*, February 1, 1913 (p. 221).

These examples, which could be multiplied, show how land speculation swept western Canada, adding to the value created by population, production and public

^{4a}"Okay to Land," by Jack Paterson, *Macleans Magazine*, Nov. 1, 1942.

⁵*Op. cit.*, pp. 63, 100, 121, 195, 236.

improvements, a wholly fictitious value based solely on the idea that a customer would come along willing to buy at higher prices.

AFTERMATH OF THE BOOM

TAX DELINQUENCY

The tax on land values was no great worry to Canadian speculators so long as the market was rising. The situation was quite different after 1914, when European immigration ceased and, in consequence, land prices fell. The tax was then a factor to be reckoned with and, as might be expected, tax delinquency mounted rapidly. Essentially, the situation was similar to that in the United States in the twenties, when the collapse of land prices left cities or states, from New York to California, the owners of thousands of tax-delinquent parcels.

In Canada the catastrophe was aggravated by the undue tenderness which municipalities showed toward delinquent speculators. Real estate interests were well represented on city councils, and these interests hesitated to take action which would be harmful to themselves or their customers. Provincial legislation was finally enacted to compel municipal action against defaulters in Alberta, Saskatchewan and British Columbia, and to simplify the procedure in respect of title to land acquired through tax sales.

IMPROVEMENTS TAXED

Meantime, as the situation worsened, the municipalities were forced to look around for ways of raising

additional revenue. As Haig points out, there was no legal obstacle to increasing the land-value tax. There was only the practical, economic obstacle that such a course undoubtedly would have resulted in an increased surrender of vacant land and perhaps no appreciable increase in revenue. It was too late to lock the stable; the horse had galloped away.

Thus it was that more and more of the taxes had to be shifted to the centrally located properties, which were the improved properties.

COULD THE TAX HAVE STOPPED THE LAND BOOM?

It is sometimes said that the Canadian experience shows that land-value taxation was at fault and should be rejected because it failed to prevent land speculation in the provinces where it was in effect. The reader should recall, however, that despite the loose talk about Canada having "full land-value taxation" or "Single Tax," no provision ever was made for taxing into the public treasury the full site value of land. Miss Scheftel explains the attitude of the municipalities as follows:

The Canadian municipalities were unusually circumstanced in that the adoption of the tax on land value did not necessitate a great increase, if any, in the rate of tax, even in spite of the growing budgets. The reason for this is the important fact that land tended to appreciate so rapidly in value in those communities. In spite of the growth of the towns, therefore, and of the increased expenditure which this growth necessitates, the rate of tax has not had to be increased in many cases. In many cases the rate has even been reduced, while in many more, it has had to be increased but slightly.⁶

⁶*Op. cit.*, pp. 280, 282.

In 11 of the cities for which Miss Scheftel gives 1910-13 tax rates it is shown that the tax rate increased in only four of them, stood still in one and was actually slightly decreased in six.⁷ ". . . in 1913, even though the depression had set in, the maximum rate of tax did not exceed two per cent."

This left a large share of the value of land to excite the cupidity of speculators, and the inevitable happened—a land boom followed; it rolled on to its climax and after that gradually declined, having impoverished thousands and made a relatively few abnormally wealthy.⁸ This is by no means unusual. The land-speculation mania develops in every region which has—or hopes to have—a rapid increase in population. The phenomenon is characteristic of the western portions of both Canada and the United States, but it may appear in any region undergoing rapid development, as the recent history of Israel abundantly proves.

This brings us to the point—can a tax on land values stop land speculation? Dr. Haig agrees that although in the large Canadian municipalities the land-value taxes imposed did not seriously interfere with speculation, nevertheless,

the experience of some of the smaller towns shows that this is only because the tax rates in the cities have been low. It has been demonstrated that it is possible to make the tax rate high enough to counterbalance the prospect for gain and to force the owners of land to surrender it. This amounts to saying that speculation in land can be utterly destroyed by this method.

⁷*Loc. cit.* After the crash, local tax rates inevitably rose.

⁸The period of declining assessed land values taxable lasted a quarter of a century, from 1915-40, when land values began to rise.

The proof of these propositions may be found in some of the Alberta towns.⁹

What Dr. Haig is saying, to put it in another way, is simply this: Just as a weak stream of water must be less effective in quenching a fire than a strong one, so a low rate of tax on land values, even though improvements are exempt or partially so, must be less effective in curbing speculation than a high one. This was particularly so in western Canada and does not indicate a failure in the system of taxation itself. The municipalities, for the most part, aimed to keep the tax rate as low as they could—which left room for speculation and even, in some cases, encouraged it—instead of making it as high as they could, which would have discouraged speculation by making it unprofitable. In short, the fault was not that land values were taxed as much as they were, but that land values were not taxed enough.

THE EASTERN PROVINCES

A note should be added concerning the eastern provinces of Canada, where, as stated, progress toward land-value taxation has been slight. In the Province of Ontario there are some examples of the exemption of improvements in both past and present legislation, but even here there has been no tendency to tax land values at an appreciably greater rate.

⁹In some of the Alberta towns referred to, the 1912 legislation, compelling them to raise local revenue from land values only, brought temporary distress. This was particularly true (Haig, p. 274) where "much land was exempt from taxation because it was part of the grant to the Canadian Pacific Railway," and where towns "had undertaken ambitious improvement projects financed by borrowed capital, which made the tax load heavier than could be borne by the landowners."

ONTARIO

The Municipal Tax Exemption Act¹⁰ passed in this province in 1920 gave municipalities the option of exempting "not less than 10 and not more than .25 per cent" of the assessed value of improvements and allowed them thereafter to exempt "the whole, or such proportion as may be fixed by the by-law." Under this act, the town of Fort Erie made reductions in the tax on improvements, and these reductions were continued for some time after the provincial legislation was repealed in 1924, under a provision which allowed by-laws to remain in force until revoked by municipal action.

Under subsequent legislation the town of Eastview, a suburb of Ottawa, exempted residential buildings and improvements from tax, except school rates, for a period of 10 years commencing January 1, 1930. Although this law was passed in depression years, the Town Clerk reports that the results were definitely beneficial in increasing the construction of new houses.

In Ontario, land and buildings are now assessed and taxed at their full value, except that in Toronto and New Toronto buildings with an assessed value of \$4,400 or under are taxed on a sliding scale which allows a maximum exemption of 50 per cent on improvements with assessed values up to and including \$2,200.

¹⁰This legislation was introduced by the first and only United Farmers of Ontario, or U.F.O. government, and was repealed after four years. Though there were several efforts made to have the permissive legislation made effective, such as by municipal polls in Ottawa and Toronto, the proposed legislation did not carry.

QUEBEC

Urban municipalities tax land and improvements separately, at their full value. The assessments of land and buildings in the rural areas were formerly lumped together but since 1945 municipal statistics aim to show land and improvements separately.

THE MARITIME PROVINCES AND NEWFOUNDLAND

Land and buildings in these provinces are assessed and taxed together, at their full value. In Newfoundland, the annual-rental-value system used in Great Britain has prevailed to some extent, but the province is gradually unifying its procedures to conform with those prevailing elsewhere in the Dominion.