THE EXEMPTION OF BUILDINGS IN VANCOUVER

During the year 1915, an investigation of the effect of the partial and total exemption of improvements from taxation in Canadian cities and provinces was made by Professor Robert Murray Haig, of Columbia University, for a Special Committee on Taxation appointed by the Mayor of New York City in 1914. The Committee was appointed for the purpose of investigating new sources of revenue for the City of New York.

A voluminous report was prepared by Prof. Haig and published by the Committee. It contains the results of his investigation in Vancouver, Edmonton, Victoria, Winnipeg, Calgary and other Canadian cities, in which the principle of the total or partial exemption of improvements from taxation has been applied.

The report may be regarded as being on the whole unfavorable to the experiment, notwithstanding that the electorate in several of the cities mentioned subsequently endorsed the plan by returning to power by substantial majorities, public officials responsible for the legislation and by defeating a number of attempts to revert to the old plan of taxation.

The report, and in fact all of the literature relating to the scheme of taxation which embodies the partial or total exemption of buildings from taxation, makes constant reference to the "Single Tax System" as effected in this plan.

It is erroneous to refer to any plan of partial or total exemption as the "Single Tax System." It must be observed that the essential characteristic of the Single Tax is the complete absorption and appropriation of ground rent for public use. No serious attempt has ever been made to do this in any of the communities of which it is stated that the "Single Tax System" has been applied. In Vancouver, B. C., the case most frequently cited as an illustration of the application of the Single Tax, improvements are now entirely exempt from taxation; but the proportion of ground rent taken in taxation is approximately one-third less than that taken in the City of New York, under the general property tax.

The result of all attempts to relieve industry by exempting buildings and other improvements from taxation, and at the same time permitting the private appropriation of more than two thirds of the ground rent annually in Vancouver, was anticipated and clearly pointed out by Single Taxers years ago.

The experiment of exempting buildings and improvements from taxation, at the same time leaving the greater part of the annual ground rent for private appropriation, has invariably been accompanied by rapidly fluctuating periods of intense industrial activity and depression, and is indeed characteristic of all of the cities before mentioned.

The reason for this phenomena is quite obvious; the large proportion of economic rent left in the hands of the land owners is the basis upon which the capital value of the land is computed.

This invariably increases rapidly because of the greater demand for land

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which arises when the burden of restrictive taxation is lifted from productive industry.

The land owners' effort to anticipate the future increase in value under the stimulus of the greater demand, brings about a period of land speculation. The price at which land may be obtained for use rapidly reaches the limit which labor and capital can afford to pay. When that limit is reached productive industry is halted and diminishes in intensity until the price of land for use falls to a point at which it may again be profitably used in production. In this way alternating periods of activity and depression continually recur.

It is true that other economic factors have in many instances modified or influenced the local conditions, but it is quite safe to say that under like conditions the same general results would invariably be obtained were it possible to eliminate all extraneous disturbing influences.

It has already been pointed out that the selling value of land is determined by capitalizing the proportion of ground rent left in the hands of the land owner after the sum taken in taxation is paid. It follows then that the greater this proportion is, the greater the fluctuation in the selling value of land will be, as economic rent rises or falls in response to the demand for land in production. This may be made clear by an illustration, first; where ten per cent of the ground rent is taken in taxation. Assume the annual fluctuation in gross economic rent to be $500, that is to say, that capital and labor will in a given year be willing to pay $500 more or $500 less for the use of a particular piece of land in production, than was paid in the preceding year. Since ten per cent. of the ground rent is taken in taxation, the fluctuation in the net ground rent will be $450. This will result in a change in the selling value of the land of approximately $9,000 assuming the rate of interest to be five per cent. on the capitalized value of the increase or decrease of the net ground rent.

Second. If however ninety per cent. of the ground rent is absorbed in taxation, the fluctuation in the net ground rent in the preceding illustration would be only $50 and that amount capitalized would result in a change of the selling value of the land of only $1,000. If practically the entire ground rent was absorbed in taxation, the selling value of land would necessarily disappear and with it the periodic fluctuation in price and the resultant opportunity for land speculation.

The experience of the communities in which the result of the partial or total exemption of improvements from taxation has been investigated, while not indicative of the effect the application of the Single Tax in these communities would have, fully demonstrates the truth of the Single Taxers' contention that (a) removing the onerous tax burdens which restrict and retard industry, do result in increased industrial activity and a greater production of wealth; and (b) that the private appropriation of ground rent gives rise to land speculation and enables the land owner ultimately to appropriate to himself all of the advance which might flow from the increased production of wealth.—A. W.

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