## COMING

IN COMING ISSUES, 10 per year, we will have articles of interest by Art Blott, Richard Cowie, Paul Bolton of Edmonton, John Alston, Pres. of Jason Oils Limited, Perry Prentice, former Editor and Publisher of House and Home, Time Inc., Senator Arthur W. Roebuck, Canadian Senate, and many many more, and possibly you.

the city has grown around him.

Of course, in Alberta the rough formula of assessment is both on site value and the value of the improvements. Land is taxed at 100% of value and buildings at 75% of replacement building cost for the year of construction chosen for assessment. A depreciation factor of about 1% a year is allowed.

No switch to pure site assessment would be possible under present rules for foundation plans for education and hospitals, whereby every municipality puts the same number of mills into a central fund on an assessment which purports to be equal across the province. We know now that it is not equal, but your suggestions, since they involve provincial legislation, should be directed at the new committee of the legislature studying urban affairs.

I know site taxation promotes earlier development of land and deters people from holding undeveloped land for an eventual capital gain. But it also hurts small people who want to be left alone.

Yours sincerely,
Roy Farran

P.S. The Kennedy round of tariff reduction was a step toward free trade. Free trade is only possible on a world basis -- not unilaterally. Even then it gives developed countries a huge advantage over the developing, who cannot protect their nascent industries from foreign dumping. It is not as easy as it sounds. Small industrie like small plants need protection for awhile. If they are protected too long they become inefficient. (+)



25c

# S.E.S. DIGEST

"... of shoes and ships and sealing wax, and cabbages and kings."

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The School of Economic Science and Social Philosophy, 702-706 - 15th Ave. S.W., Calgary 3, Alberta, Canada. A non-profit, non-sectarian, non-political educational institute, dedicated to a free, just and wholesome society.

## A WORD WITH YOU *

It's born It's launched. As Moss Hart said: "Act I, Scene I." We are proud to get Vol.I, No.I off the press. Feel like a new mother after labor. So does the staff. We trust the baby will someday have written across its forehead (as one publication we had something to do with for a number of years) Volume 61.

There is a crying need in our complex society for more deep and clear thinking if we are to avert the fast-accelerating downhill slide into chaos, street-fighting, and a whole series of debilitating holocausts.

Technically, we are perfect and getting "perfecter." But in our inter-social relationships we "stink." We are in the middle ages and fast receding into the dark ages. We are being levelled down and down; when our highest aspirations should be up and ever upward.

This magazine, in its small way, will endeavor to continually point to a better way, by trying to expose sham and fallacy; by trying to point out the true problems behind the facade of modern life; by relentlessly seeking true and just answers to the true problems.

Will you help in this endeavor?

Jim Ramsay, Editor.

* a by-line used for many years by R. Clancy, NY City. They say imitation is the sincerest form of flattery.(+)

### CAPITAL GAINS TAX ENDORSED BY LUDWIG

Lower cost of land acquisition for housing and less land speculation would result from a capital gains tax on land, Calgary East MLA Albert Ludwig told a Liberal sponsored housing forum.

The newly appointed public works minister said there is no reason why profits made on the sale of undeveloped land should not be taxed.

He said it was unfair for a land owner to profit from increased values after values were increased due to improvements on surrounding properties. He said "vested interests" had been successful in keeping this form of taxation off the books. S.S. Mirror, May 29.

## INFLATION - PRIMES THE PUMP BUT FLOODS THE BASEMENT

### The Mirage of Inflation; Effect, Cause and Cure

From an address delivered
May 9, 1969 by
Michael J. Underwood,
Member of the Faculty
School of Economic Science

Of all the problems facing Canadians today one of the most frustrating and intractable is inflation, and the current use of the term is far greater today than ten or even five years ago.

When we shop for goods and notice progressive increase in prices from week to week, 5¢ here, 1¢ there, without a corresponding increase in purchasing power, this is inflation pure and simple. And yet inflation is not a new problem. Throughout history the value of goods exchanging against money has fluctuated, sometimes wildly. When the Spaniards discovered gold in Central America in the sixteenth century and shipped it to Europe in large quantities, the price of goods against gold increased. In more recent times the collapse of the German Mark after the Great war and the depreciation of the Chinese currency in the period 1937-47 are extreme examples. (The cost of living increased over 2 1/2 million times in China). This of course, makes the present erosion of the Canadian Dollar of about 5% a year look trifling by comparison, but the problem is serious just the same.

Before proceeding further we should consider the understood definition of the word inflation. In his "Modern English Usage", Fowler says "The resort to inflation of the currency raises prices artificially, and the abnormal increase of currency by the issue of convertible legal tender notes". Another definition strictly denotes "an excessive supply of money relative to the supply of goods and services".

Perhaps the most pertinent comment on inflation was made by Henry Hazlett, in his book "Economics in One Lesson" (Inflation) "discourages all produce and thrift. It encourages squandering and gambling, reckless waste of all kinds. It often makes it more profitable to speculate than to produce. It tears apart the whole fabric of stable economic relationships. Its unexcusable injustices drive men toward desperate remedies. It plants the seeds of fascism and communism. It leads men to demand totalitarian controls. It ends invariably in bitter disillusion and collapse".

All authorities recognize the seriousness of the present problem of inflation. From time to time political leaders make pious statements on the situation of price levels and the desirability of maintaining a stable currency but any efforts in this direction are largely ineffective.

The introduction to "perspective 1968", published by the United States Federal Reserve Bank of New York, said, and I quote, "As always, one goal of monetary and fiscal policy in 1968 was non-inflationary growth. It has not been achieved. The surge of prices endangered the economy and the standing of the dollar in the world." Later, in their 1968 annual report the Federal Reserve Bank of New York stated, "The economy moved through a record eighth year of expansion in 1968. However, prices and wages rose rapidly as the growth of aggregate demand remained excessive throughout the year and unemployment fell to its lowest level in fifteen



years.... The inflationary pressures in the economy also spilled over into the Balance of Payments. Excessive domestic demand was in a large measure responsible for the drastic decline in the United States export surplus."

Our own Bank of Canada in its 1968 report, stated, "The stubborness of the inflation problem in the face of levels of unemployment which has ranged between 4 1/2% and 5 1/2% during the past year, is very disappointing. It seems clear that the attitudes of all groups in the community to price and income increases, with their influence, are affected not only by the levels of unemployment and idle plant capacity but also by the expectations about further price trends and the degree of buoyancy in business conditions and employment opportunities."

In effect, buy and build now, even if its expensive. Tomorrow it will be more expensive. This is what is currently being called "Inflation Philosophy."

These extracts paint a gloomy picture of the performance of the North American economy in 1968. And the prospect for 1969 doesn't seem any brighter.

People throughout the world - inflation is a problem certainly not confined to North America - want to know why inflation is getting out of hand. Why do price levels continually rise? Why are the thrifty penalised by the progressive erosion of the purchasing power of their savings? They ask further, when are their elected leaders going to do something about the problem?

Before exploring some of the reasons as to the cause of inflation I should quote briefly from the end of the book "The General Theory" by the emminent economist

J.M. Keynes. "Practical men," he says, "who believe themselves to be quite exempt from any intellectual influences are usually the slaves to a defunct economist." The irony of the situation is that, more than ever, the defunct economist to whom our practical men of government and finance are enslaved is none other than John Maynard Keynes.

As is widely known, the quantity of money in circulation in a country doesn't matter according to Keynes. What does matter is to "prime the pump" and get the economy moving when business is in a state of depression. What he probably didn't envisage was the pump running out of control and flooding the basement!

We can quote from Keynes further. "It has long been recognized by the business world and by economists alike, that a period of rising prices acts as a stimulant to enterprise and is beneficial to business men." He goes on to say, "When the value of money falls, it is evident that those persons who have engaged to pay fixed sums of money yearly out of the profits of active business must benefit, since their fixed money outgoings will be a smaller proportion than formerly to their money turnover." Keynes also has something to say about inflation as a method of taxation. "A government," he says, "can live by this means when it can live by no other. It is the form of taxation which the public find hardest to evade and even the weakest government can enforce, when it can enforce nothing else."

So certain business enterprises can profit from inflation. And so can weak governments. Is it just coincidence that inflationary pressures started to build up during the minority government in Canada?

After this brief introduction to our subject I would like



to consider causes. Effects are numerous, but causes are perhaps harder to find. We already know that the definition of inflation involves an excessive supply of paper money relative to the supply of goods and services available. Do we in fact have too much paper money in circulation? If so, Why?

To pay its bills, the central government can generally resort to two methods in raising funds. Either taxation or borrowing. We all have the experience of the first of these two methods. Every April 30th we are compelled by pain of penalty to mail a certain T1 form to a computer in Ottawa. However the Department of National Revenue may try to sweeten a bitter pill with animated cartoons and talk of sharing our wealth, the payment of income tax is a harrowing experience, and it has been throughout the ages. As the government cannot raise enough revenue through taxation without provoking a revolution it has to resort to borrowing. It sells variously named Bonds and Treasury Bills to the public at rates of interest generally lower than available in the market. Low because of the widely held belief that lending to government is a low risk investment. Experience from the past shows this belief to be questionable to say the least. Now, suppose our government is still in the "red", which it invariably is, of course. What then? Why just issue another Bond and deposit it with the Central Bank and order it to print x Dollars of brand new, crisp, green currency units. Incidentally, they really look valuable, don't they!

Hopefully, it can redeem some of this credit money in the form of increased taxation before it effects prices too much. The following extract from the United Committee for the Taxation of Land Values magazine "Land and Liberty" aptly describe this situation. The references are to Britain, they could be applicable to Canada:

> "In short, the government pours out paper money by the ton, spends it into circulation itself, and then proceeds to warn us not to spend it ourselves when it comes our way through the multiplicity of exchanges. It does more than warn. It orders banks to cut loans and hire purchase companies to restrict credit; maintains a high rate of interest to make money dearer to borrow, pegs wages, restricts capital and ties industry in knots in order to save itself from the consequences of its own folly. With all this new money and credit flooding the country, the government seems surprised that inflation has occurred and that other countries value our pound less, thus aggravating the pressure on the pound."

Let us be warned by others experience in combating the problem of inflation.

Should there be some control on the quantity of money in circulation and can we fully trust the government to police itself in this regard? Some economists, notably Prof. Milton Friedman of the University of Chicago, have maintained over the years that the supply of money should be regulated by the annual growth in the GNP. Some economists oppose this theory and say it would unduly restrict business in capital investment programs but the idea is gaining increasing attention and acceptance.

Two factors are widely quoted as factors contributing to inflation. 1. Cost Push, and 2. Demand Pull. Briefly, Cost Push is said to be caused by increasing wages without a corresponding increase in the supply of goods on which to spend wages. Demand Pull, is



simply too much money being exchanged against too few goods. Scarce skilled labour is included in this category, with prospective employers bidding up the price of wages of the skilled labour.

It has been said that employers do not actively resent wage increases because they will invariably pass these on in the form of increased prices, plus something for themselves.

To sum up the possible causes:

1. Continuing government deficit financing, and too much demand on the economy by excessive government spending.
2. Cost push - too great an expansion of wages without corresponding increase in productivity.
3. Demand pull - too much money chasing too few goods, coupled with inordinate increase in the nations money supply.

Before leaving inflationary causes I should mention two other factors; if not causes in themselves they are contributory to the inflationary fires. They would be: 1. The persistence of the widely held belief by the general public, that money has an inherent value in itself, rather than being a measure of value. How many people pride themselves on the increase of their dollar income over the last five years or so. Are they really better off? Only marginally at best, I think. The second factor would be the rapid expansion of credit buying over the past years. We are continually invited to get that "red convertible" loan. What happens? We know from our studies at the School of Economic Science that there are two kinds of money. Commodity money, related to value from production; and Credit money, related to value from obligation. By buying that red convertible we have used credit money that has to be validated over the period of the repayment contract. Banks create credit and new money by lending out funds greatly in excess of their assets. Here is an example of Demand Pull inflation at work.

Now we come to the proposed cures. Several of these have been, and are being, used throughout the world with questionable success. They would come under three general headings:

1. Monetary measures.
2. Budgetary measures.
3. Controls.

Under monetary measures, you would include. a) the bank rate, b) control over lending, c) deposits made by chartered banks with the central bank, and d) open market operations.

The Bank Rate is the rate of interest at which the central bank will make loans to the chartered banks. It is the general guideline for interest rates in the country. Its increase can make the cost of loans unattractive to businessmen and manufacturers considering expansion of productive capacity, plant, etc.

Control over Lending can be influenced and banks can be requested to restrict loans to essential purposes only. Restrictions can be placed on the expansion of credit and the "red convertible" may require a minimum down payment of $1,000 rather than $100 and the repayment period cut from 36 months to 18.

Deposits with the Central Bank. The chartered banks may be required to place a larger percentage of their assets with the central bank, thus reducing their liquidity position.

Open Market Operations. The central bank could



cancel or call bond issues, thereby reducing the money supply.

Under Budgetary Measures, the government can increase direct or indirect taxes and reduce the purchasing power of the individual. This results in so called enforced saving, provided the government doesn't turn around and spend the tax money back into the economy. Supposedly, the government every year estimates the value of the GNP and the anticipated aggregate demand or purchasing power of the country. If it feels that the demand is excessive the additional purchasing power is siphoned off in increased taxes.

Under Controls. Such extreme methods as price fixing, rationing, limitation of dividends and profits, and freezing of wages can be employed. In time of war such methods might be acceptable, but they are repugnant in a capitalistic economy and would be evaded. Similar methods have manifestly failed in Britain in recent years.

Summary and Conclusions.

The inference is plain. There is no single way to keep inflation under control. The success of any policy must result in maximum employment and stability of purchasing power. Whether inflation can be reduced without accompanying unemployment is debatable.

One reform that I have left to the last and is consistantly ignored by government, is, of course, the collection of economic rent for the community. Until that essential reform is carried out all others will only be partially effective.(+)

The person who knows how will always find a work-place; the one who knows why will invariably be his boss.(+)

## FOOD FOR SERIOUS THOUGHT

10. Since 1960, per-capita food production has steadily decreased in Africa, the Near East, the Far East, and Latin America.
9. In 35 years food production in the developing countries will have to be increased by 150% merely to maintain present levels.
8. If the U.S. were to donate its entire 1965 food surplus to the world's hungry, it would mean only two teacups of food every 17 days per person.
7. The world needs a 50% increase in grain in the next 15 years merely to hold the status quo.
6. Every year 1 billion people in the industrialized nations increase their population 1% and food 2%. While 2 billion people in the developing countries increase their population 2.5% and their food less than 1%.
5. If one couple were alive at the time of Christ, and their number had increased at an annual rate of 2%, the present population would be about 143 million billion (143,000,000,000,000,000) - 1,025 people for every square foot of the earth's surface. Today's annual rate of population increase is 2%
4. Merely to feed the extra population of the next 33 years at present levels, the less developed countries will require as much additional food as is currently being produced by all the farmers of the world.
3. The 1965-66 per-capita food production in less developed countries was below the pre-war ratio. World food production that year was no greater than the previous year, but there were 70 million more people to feed.
2. Not long ago it was said there were 15 to 20 years left to solve the world food problem; we have in fact much less time due to an underestimation of the increase in demand and an overestimation of the rate of the increase in population.
1. Large-scale famines are forseen before 1980.

- Supervisors News Bulletin, March '68

## SITE TAXATION

From a brief prepared by F.G. Arscott, Treasurer, City of Calgary, and presented to the Municipal Finance Officers Association of the United States and Canada, 63rd Annual Conference, May 25-27, 1969 Toronto, Ontario.

To be quite frank I had no idea at the time I was requested to submit a paper on this subject that there was and still is so much controversy over site taxation. I am somewhat alarmed that because of my submission I might be mistaken for an expert. I can assure you nothing could be farther from the truth.

What I don't know about site tax would fill nearly all the tracts, pamphlets and books on the subject. I do, however, have a few observations to make culled from our past experience with site taxation. I, of course, can only speak on the situation as it would or does affect my own community.

### Property Tax Systems - Defined

Single Tax is a system of taxation in which all revenue is derived from a single object (Webster).
Site Tax is a system of property taxation in which all revenue is derived from land. Under site taxation, taxes on buildings are dropped.
Ad Valorem Tax (to value) in property tax land and buildings are taxed at 100% of their assessed value.

Calgary is only one of over 4,000 local governments in Canada having the power to tax. Ninety per cent of Canada's population is represented by these local governments, thus it is hardly surprising that property tax is a popular topic. That some of our elected officials in their desperate search for amelioration and relief of taxation should look at Site Taxation is also hardly surprising.

What is the magnet that draws, the magic that spells people in Site Taxation? Site Taxers claim:-

1. Taxing buildings limits investment in them, and therefore the development of them.
2. Taxing buildings discourages replacement of old and worn out but revenue producing buildings which in their present state are lightly taxed though income producing.
3. Legislation incurs tax policies which subsidize slums by under-assessing both land and buildings because of their condition.
4. Where re-development through slum clearance is mooted, slum land owners, because of light taxes, can hold these lands while exacting a market price based on future use. The same argument is used in regard to land developers.

Indeed, many more arguments put forth by site taxers are based on the above with variations to suit local arguments and conditions. It should be obvious to all, however, that Site Taxation is no panacea. No system of taxation will reduce the monies needed for the operation of that municipality. Taxation by any name is still taxation, and from the latin word "taxare" we derive the word tax, and in latin taxare means "to touch, sharply."

Our brief history of taxation in Western Canada followed the patterns of taxation in North America. In early colonial times, the only taxes or levies were Custom Duties. As the settlements grew, so did the inventiveness of Local Government Administrators. All forms of property became taxable. Land, buildings, livestock and crops, Jewellery, furniture and personal property, paper wealth such as stocks, bonds, mortgages, bank notes, etc. In other words, all property which included people under the poll tax or head tax.



With Confederation, the Provincial and the Federal Governments were each allotted various revenue sources under the British North America Act, and to the provinces went both Income and Property Tax.

The provinces passed on the property tax to their burgeoning municipalities as the need arose.

In the late 19th and early 20th centuries, land settlement and development was, to say the least, hectic in Western Canada. Many new and struggling towns and cities, including Edmonton and Calgary, embraced Henry George and his single tax under the then current belief that taxation of land would provide a tax base wide enough to meet local government needs and also in the belief that it would provide anti-speculation pressures of its own, thus a total exemption of buildings followed. Its inception and application coincided with the great Western Canadian land boom and the confusion and chaos following in its wake was justly or unjustly laid at the door of the Site Tax.

Its failure in the cities was a subject of study by Professor Robert Murray Haig of Columbia University, New York, who was at that time working for the Saskatchewan Government in the re-adjustment of the financial systems of its municipalities.

He noted that municipalities lost their collective heads. Anticipating the continuation of their explosive growth, municipalities extended their boundaries, constructed water systems, built schools and laid pavements and sidewalks radiating out in all directions into the surrounding prairie beyond their current development. The boom collapsed in 1913. The anticipated settlers who would pay for the over extended developments did not materialize. In 1914 thousands upon thousands of the young settlers flocked to the colors to defend the Mother country and many never returned.

Inflated land prices used as a basis of assessment collapsed, and with shrinking revenues, the over burdened municipalities, including Calgary, reverted to taxing improvements to stave off bankruptcy.

Studies by H. Bronson Cowan in 1939 on the effects of single tax in Western Canada concluded with:-

1. That had it been introduced prior to the commencement of the land boom, rather than when conditions were, to say the least, abnormal, it would have had a definite and important restraining effect upon the land speculation which was to have such disastrous and long lasting effects.
2. That the municipalities nonetheless derived more benefits than they would have by a taxation system leaning heavily on building assessment.
3. Properties with buildings would have had to bear far more burden than they did in supplying tax dollars to promote speculatively inspired developments, if those buildings had been taxable.

These pro-site tax statements reveal at the same time the inherent weakness in Site Taxation. It worked very well in Western Canada as long as there were inflated land prices and speculation. The two factors



it was supposed to inhibit. It failed completely as a tax base when land values became normal.

The Site Tax experiment in Western Canada has not been forgotten, in fact, to this day the municipalities of Alberta exempt 40% of the assessment value of buildings from taxation, and in the present reassessment currently under way this exemption of building assessments from taxation will be increased to 55%.

THUS ALBERTA TODAY HAS A PARTIAL SITE TAX

This modified site tax has not prevented slums, it has not fostered continued development of the central core, and it has not made for more satisfied or happy taxpayers. In fact, the same situation occurs in Calgary that occurs in London, England, which is under the rates or rental value system, and which prompted Sir Winston Churchill to observe in an address to the London County Council. "A taxpayer is a person who demands better roads, bigger and more parks, finer harbours, free university education, faster more efficient public transportation and lower taxes."

Site Taxation will not lower taxes. It will narrow the tax base and it will shift the burden of those taxes.

Buildings constitute a capital investment in labor and materials from which the owners anticipate repayment. In the case of a private dwelling, the return on the owners investment may be in the form of rents he would otherwise have to pay.

The value the owner places on prestige, and his ability to pay for such results in the quality, size, style, etc., of the dwelling. Likewise with our commercial, industrial and apartment buildings, the varying amounts of labor and capital invested in them determine their assessments. These are traditional and to a degree recognize the owner's ability to pay.

Likewise our land assessments are based on traditional factors of zoning, use, services available and distance from the central or other focus points.

Our present system of assessing derives a large measure of its equity from these building differences, but when site tax is applied, they are cancelled. Equity based on the building assessment disappears.

There would be no difficulty in applying site tax since our present land assessment is relatively pure in that land and its use only is assessed to it. The difficulty would arise later in trying to justify it to the small merchant who would complain bitterly about being on the same rate as the multi-storey department store competing with him down the block. He would naturally and justifiably feel that he was contributing to the extra fire, police and other municipal services required to service this building over and above those required to service him. Any subsequent modifications to the assessments to recognize these factors would taint the land assessment by recognizing the buildings erected thereon and therefore destroy the site taxation by assessing buildings but hiding them in the land assessment.

In Calgary, despite the 40% exemption of buildings for tax purposes, our building assessment forms 2/3 of our total taxable assessment. If this is shifted entirely to land, 2/3 of our tax base disappears. Since the revenue required through taxation would not diminish, then the mill rate would have to increase three times. The Assessor would be popular, the Tax Collector and City Council would be the villains. Totally



unseen at first by the populace would be the shift of the tax burden.

Hardest hit would be the undeveloped lands, next would be the under developed properties which would include slums, older homes, and cheaper small houses and commercials and industrials WITH LOW VALUED improvements. Also hard hit would be the high valued lands of the central core where commerce is in a desperate fight to stay alive now in competition with suburban shopping centres.

A study made in Calgary in 1962 showed that all properties whose assessment had a building ratio to land above that of the city average would have a decrease in taxes, and conversely all those properties whose assessment had a building ratio to land below that of the city average would have a tax increase under site taxation.

The report bore out in full the observation of Thomas J. Plunkett in his "Taxation and Land Development - A Look at Site Tax." in which he stated:- "properties with the most valuable improvements would pay less taxes under the site value taxation, and properties with the least valuable improvements would pay more."

In Calgary under present land assessments Site Tax would benefit those who are prepared to develop immediately a property having a building value which exceeds the land value by 3.66 times. It would not hurt the Land Developer since there is extant in Alberta, legislation giving Councils of the various municipalities the power to grant an 80% exemption to land held by bonafide land developers intended to be serviced and developed by them. Such exemption to be granted for a period of five years and renewable thereafter at the discretion of Council for a further period if no construction has commenced thereon and there has been no change of ownership. It would hurt the land holder such as an industrial plant holding lands for future expansion.

Alberta is constantly up-dating and modifying assessment legislation. It believes that a modification of the Site Tax is better than either full property tax using 100% of the value of both buildings and of land, or of using land only as the basis for taxation. Provincial legislation using 60% of the value of buildings and 100% of the value of lands for tax purposes is being amended in the near future to 45% of the building value and 100% of the land value.

The greatest danger in Site Tax that I can see as an administrator would be its non-recognition of the estra services required by todays large highrise developments and the fact that adjoining lands would be assessed on the same basis, and with no increment of the assessment when like developments took place upon them. Any recognition of, or modifications for these developments would be recognizing the buildings, and therefore we would no longer have a site tax.

My final observation and sum-up statement would be that a modified site tax seems to offer Alberta the vehicle by which it can best suit our cloth to our own needs.

As to Site Taxation in its pure form, I have no further remarks or advice as George Bernard Shaw once said, "Advice is a drug on the market, supply exceeds demand." (+)

## THE EFFECT OF LAND SPECULATION ON THE DEVELOPMENT OF EDMONTON

BY Robin Denton,
Longson, Tammets & Denton,
Real Estate Limited,
Edmonton and Calgary,
from an address to the
Graduating Class of
The School of Economic Science
in Edmonton on May 24, 1969.

A man considered by many to be one of the greatest authorities on the City as a social creation of man, Lewis Mumford, wrote a magnificent study of urban life called "The City in History."

In this classic examination Mumford said: "The chief function of the city is to convert power into form, energy into culture, dead matter into living symbols of art, and biological reproduction into social creativity. The positive functions of the city cannot be performed without creating new institutional arrangements, capable of coping with the vast energies man now commands...."

In this regard, how does Edmonton Measure up? More specifically, has speculation in real estate in Edmonton interfered with these goals set out as the ideal ones for a modern city?

Edmonton first started to outgrow its original confines as a farming and trading ourpost, in the 1980's. It spread gradually from its original towns of Edmonton on the north side and Strathcona on the south side without planning other than to lay out the streets on the grid system typical of prairie settlements at that time. Already land promoters and speculators had moved in to compete with the two major landholders of the time, the Canadian Pacific Railway and the Hudson's Bay Company.

The Hudson's Bay Company at that time held a large tract of land west of 101 Street, a portion of which to this day is known as the Hudson''s Bay Reserve. The Hudson's Bay joined in the great speculation in land and set prices of residential lots so high that other promoters built a street railway line along Kingsway to 124 Street, to bypass the Hudson's Bay's land holdings and to increase the saleability of their own subdivision in the 124 Street/ 118 Avenue areas.

This great speculation resulted in high price levels for land not to be equalled again until after World War II. It also resulted in such scattered residential development that large areas of vacant land remained unused until as late as 1946.

Only one residential district stood out as a well-conceived and planned area. It was created in Edmonton's West End at the turn of the century by a man named Carruthers as a preserve for the well-to-do, and is regarded to this day as one of the city's most attractive subdivisions. This is the district known as Old Glenora.

This past land speculation created difficulties in providing transportation, schools and utilities, which were not to be even partially overcome until the 1940''s.

The next big wave of real estate speculation came in the post-war years. It was helped enormously by the changed situation in the local economy resulting from the blowing-in of the first oil well at Leduc, the post-war population boom and by easy availability of



mortgage funds, especially through NHA. The big population boom increased the need for office buildings and retail developments in the city's downtown core. However, little speculation in land has taken place downtown, possibly due to the larger investment required and to the fact that quicker profits could be made in the suburbs.

Perhaps if Edmonton were in California, things would be different. California is noted for its many brand-new, far-out religious sects which often appear on the scene virtually overnight. One promoter down there bought a piece of land and built a church purely on speculation in the hope that one of the new religions would come along and buy it!

Speculation of a type has occurred downtown among smaller properties, occupying perhaps one or two lots, especially along Jasper Avenue west of 101 St. Because individual owners have frequently held out for excessively high prices, major developments have been constructed at other locations, leaving otherwise good sites undeveloped.

In one well-known instance an individual was paid in excess of $1 million for a single lot when developers decided to proceed with a multi-million dollar project despite the high price for the particular parcel. Future tenanats will eventually pay the high land cost through higher rentals.

Several large Canadian companies specializing in parking lot operations hold a number of vacant properties in downtown Edmonton, with a view to eventual disposal at greatly appreciated prices in the future. This, too, is a form of speculation.

One major investor has made a practice of purchasing underdeveloped sites, and establishing profitable business enterprises on them so that original capital invested in the land is returned within a relatively short time. The businesses are then moved to less costly sites, and the properties either redeveloped by the owner to a higher density, or sold.

An interesting example of another type of speculation occurred in an Alberta city in recent years. This one involved a major office building. An Eastern group purchased the property, and immediately sold the land alone to a life insurance company, taking back a 99 year land lease at a rental based at 6-3/4%. They then increased the existing relatively low mortgage to a maximum amount on the leasehold interest only, that is, on the building alone. As a mortgage company, on such a substantial property, will give financing on a leasehold interest only, in an amount nearly equal to the financing ordinarily given for land and building together, by this stage, the eastern group had already recouped its original cash investment and had obtained cash to boot. They now sold off a 49% interest in the building alone totwo other investors. When they were through, of course, they not only no longer had a cent of their own invested in the property but now owned 51% of the net income flow for the next 99 years and had sufficient funds to move on to attack the next property coming their way and repeat the process.

In Edmonton's downtown core we see certain parcels of prime land on which dilapidated structures sit idle or near idle. As the recent Hellyer Report states, this and I quote -

"form of land speculation noted by the Task Force is much more subtle if equally costly to a municipality and its residents. It involves not a lack of use of land, but its serious and purposeful under-use for speculative



purposes ...... It reaps its socially created value increment when governments expropriate it or private developers pay a large price for it to put the land to the kind of positive use its position within the community demands."

The Task Force, and I quote further,

"is concerned .... with evidence of some cases where owners of urban land appear to be holding back its maximum development even where a market exists in the apparent hope of an even larger speculative gain in the future."

The Hellyer Report further states:

"Such practices draw their strength from municipal property assessment procedures based more on what is on the land than the land itself. Thus taxes on downtown parking lots are only a fraction of those charged against the high-rise office beside them. And it is much cheaper tax-wise for the owner of a slum property than for one who himself erases blight from his property and replaces it with a modern development. As land becomes even more scarce within our major urban areas the Task Force feels that municipalities in their own interest cannot permit and even encourage such under-utilization of such a valuable asset."

The Report continues - "Members were attracted in principle to the concept of "site value taxation" outlined to them by the Canadian Research Committee on Taxation. This proposal would sharply reverse the present assessment, basing property taxes on the publicly-created value of land rather than the privately created value of buildings on it. In essence, the owner of a piece of urban land would be taxed on what he could do with the property."

The speculators don't always win out. We have the recent situation in Edmonton respecting the Omniplex site, which a number of local speculators were certain would be located on Jasper Avenue east of 100 Street. Much optioning, selling and reselling of property took place in the area. The City quietly proceeded with plans for another location at 97 Street on 103rd Avenue, leaving the speculators with excess property on their hands.

On the eastern fringe of the downtown core is a depressed residential and commercial area. Some speculation is occurring here in view of announced urban renewal plans but most properties are held by individual owner-residents living in the district. Unfortunately, in the removal of such depressed housing, the action of market forces alone is related not so much to physical or economic depreciation as to alternative uses of the land, particularly commercial as opposed to residential uses. This will of course affect the future of Edmonton's Chinatown as a unique cultural and social entity within the city.

What about speculation in residential land in Edmonton today? It is here that possibly the greatest speculative profits have been made and the effects are both more immediate and far-reaching. Certainly there have been a number of factors other than speculation influencing high land costs, including increased servicing costs and inflation itself. But as the Hellyer Report emphatically stated, and I quote:

> "One of these factors clearly involves the speculative element which surrounds much of Canadian land development. Undue speculation is a charge easy to level but often difficult to prove. But one can hardly deny that it exists in the Canadian land market and in some cases, to an alarming degree."



On the periphery of Edmonton, speculators hold most of the land onto which the city must expand. It is common practice for a speculator to offer a farmer a higher price than prevails at the time, optioning the property for a lengthy period into the future for a minimum option consideration, and relying on both demand and inflation to appreciate the property to a higher future value. This pits the speculator's knowledge and sophistication against ignorance of the market and naicete on the part of the farmer. Hellyer comments: "there are fewer and fewer farmers around and more and more land speculators in overalls".

The Task Force seriously questioned whether the rights of ownership of land "can be stretched to encompass situations where the owners of land reap gigantic financial benefit not from improving or working it, but merely by allowing it to lie fallow or in admitted under-use while the efforts of the community around it make such land an ever increasing valuable asset...... The Task Force believes the present system is heavily overweighted in favour of the speculator"..... "The Speculator, whose only cost has been the marginal taxes charged against the 'farm land', sells out to a developer and enjoys a sunny winter in the south. The developer is left to service the land, build on it -- and pass his inflated land costs to the eventual purchasers of his houses."

It has been asked what is the difference between a farmer purchasing at $50 per acre, fifty years ago and selling at, say $6000. per acre today, and a speculator buying at $3000. per acre four years ago and selling at $6000. today. Shouldn't the speculator be justified in his activities? It's a matter of the creation of social wealth - the farmer has added to the wealth of the country over the years and the speculator, with little risk or management on his part, has doubled his money in a brief period without adding to the economy whatsoever.

High land cost and market conditions have been responsible for the square miles of Edmonton houses of the type so aptly described by Pete Seeger as "little boxes all made of 'ticky tacky' " or as we popularly call them, "crackerboxes" all gift wrapped in their bands of five or six rows of coloured wood siding.

In the field of high-rise apartment sites, there has been a great deal of speculation, mostly on the part of the original individual owners of lots comprising each parcel. As a result of the individuals holding out for high prices the bigger apartment developers have recently been turning to Calgary and other centres where land costs are lower. The recent rental increases are in part due to these high land costs and are meeting tenant resistance for the first time, - witness the rental-payment strike against a particular Edmonton developer several weeks ago.

Increased land costs for high-rise construction have created pressure by developers on City authorities to increase the present density limitation of 300 persons per acre. This could in certain instances lead to congestion and less open spaces around apartment buildings and eventually, to a lessening of human values.

A marked trend toward partnership arrangements between developers and speculators on the one hand, and some of the largest financial mortgage institutions in the country on the other, should be noted. These major lenders are offering, in the current tight money market, to take equity participation in developments



in return for the placing of permanent financing. This involves these substantial corporations directly in equity investment and to a certain extent, speculation, at the local level, and could lead eventually to the lessening of competition and increased domination of the local real estate investment market by the giants in the field.

What will all this lead to? What does the future hold for Edmonton if we don't come to grips with the problems?

We are fortunate in having a reasonably good zoning control through Zoning By-law No. 2135 and the ensuing Land Use Classification Guide of 1964. It is certainly true, however, that this has led to a certain sterility in various districts of the City and a degree of sameness of architectural styling, and has not saved from destruction a number of historic structures such as the old Rutherford and Richard Secord mansions. Possibly th old Post Office clock tower may also be lost to future generations. The preservation of Chinatown, as an enclave where new immigrants from the Orient can become acclimatized and as an asset for all citizens should be a matter of concern.

But nevertheless, the present system of flexible yet reasonably rigid zoning has prevented the chaotic development seen in many other North American cities, and has created in the Civic Centre an unusually attractive cultural and administrative focal point for the city.

We need more foresight on the part of the City authorities to prevent the current lag between the supply of serviced land and housing demand, which at present opens the door to speculators.

Perhaps the City could set up a land bank, purchasing land ahead of needs and ahead of the speculator, as Saskatoon has done since the 1930's.

The City now permits developers to install services to their own land - a step Calgary took years ago. When developers have paid for servicing, they will develop and sell again as soon as possible to free capital. Lots in Calgary have been lower priced than Edmonton's.

The average two-year period from annexation to availability of lots should be shortened by cutting through red tape.

Provision should be made to provide for residential development somewhere between the present density of four single-family dwellings per acre and 17family units per acre. With the exception of duplexes, no provision is made between the two extremes.

Property taxes should be set up on an incentive basis rather than acting as a deterrent to improved development, and in such a manner to discourage speculation.

Edmonton has the potential of becoming a particularly pleasant in which to live, where there will be lovely vistas for the eye, opportunities for its youth, and a rich cultural life for all its people.

In closing I would return once more to the words of Lewis Mumford: -"The final mission of the City is to further man's concious participation in the cosmic and the historic process. Through its own complex and enduring structure, the City vastly augments man's ability to interpret these processes and take an active formative part in them, so that every phase of the drama it stages shall have, to the highest degree possible, the illumination of conciousness, the stamp of purpose, the colour of love."(+)



May 7, 1969

Mr. Roy Farran, Alderman, Calgary

Dear Mr. Farran:

As it is impossible to conduct a sensible or lenthy conversation on the "Sound-Off" program, I should like to make a point and hope I may hear your opinion on this point, either by letter or as a topic on your morning program. We are constantly bombarded from politicians at all levels of government, but not once can I remember ANY politician coming up with a solution to the numerous social and financial problems that plague all of us. It seems to me, at least, that the majority of politicians engage in a game of character assassination and mud-slinging, rather than spending all that energy on studying solutions for the betterment of all of society.

Why can't politicians work on the premise of what is right, not who is right? There is a vast difference that most people overlook, in the bid for notoriety or popularity, and hence the ordinary man is pushed aside and ignored, his problems unsolved. If there are some politicians who take their jobs of work seriously but feel hampered by rules laid down by lawyers several decades ago, why not fight for a change or updating of these ancient laws that do not comply with todays way of living? They are man-made, they can be changed by man.

Why do we continually enforce laws that conflict with modern living, laws that we made to handle the horse and buggy society? You may ask me if I have a solution to the problems of today and I can say yes, I have. But the land speculators, churches, unions and some charitable institutions would lobby against my solution - namely, LAND VALUE TAXATION AND FREE TRADE, as easy as that.

If these two solutions to the problem were implemented, society would be rid of slum landlords, land speculators and EVERYONE would be entitled to his birth-right of a place to stand and the fruits of his labor.

At least my solution beats Marxism, which is rapidly catching on right here in Canada. Which should we choose, land value taxation and free trade, or Socialism Communism? We do have a choice, if politicians start thinking of what is right rather than who is right!!

Yours sincerely,
Marjorie Cowie.

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Office of Alderman Farran, Calgary
May 8, 1969

Dear Mrs. Cowie:

Taxation on site value has some advantages and some disadvantages. It is a proposal that has been studied by local governments through the ages and a modified form is actually used in a few states of the union.

Usually, as in California, it has been modified to include a form of property gains tax. For example, if you sell a piece of land for a much higher price than it has been assessed at for years, you are liable to repay immediately four years property tax based on the new market figure. The argument is that the change in valuation has only occurred because of the benefits derived by the city growing around your parcel (cont. on 33)

The Fat Cats

## NON-PRODUCERS FACE CUTBACK

By George Brimmell,
(The Herald's Washington Bureau,
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The Calgary Herald and
Southam Press, May 29, 1969

WASHINGTON — There's a move under way in Congress to cut off the fat cats in farming who have been getting richer and richer on government subsidies — for not growing anything.

It's a repeat of an unsuccessful attempt made last year, it failed then but sentiment in the country today, in a nation now aware of its hungry and malnourished, may lead to a different result this time around.

The effort is to place a ceiling of $20,000 on subsidies paid to any one farmer, or corporate farm.

Members of the House of Representatives voted 224-142 for an amendment to the agriculture department's annual money bill, which would place the $20,000 limitation on subsidies.

The bill, with its limiting rider, must be assented to by the Senate, which killed a similar attempt last year.

It is aimed at the big operators, who got a bumper crop last year with individual subsidies as high as $3,010,042.

A total of 16,430 farmers or corporate farms received subsidies in excess of $20,000 last year on cotton, feed grains, wool and what.

## Crop Subsidies

In 1968, the government — that is to say, American taxpayers — shelled out $3.3 billion to American farmers in crops subsidies and payments for not planting crops.

About a third of that amount was paid out for "crop diversion"... that is, withholding land from production, leaving it fallow or growing clover, lespedeza or other ground covers, or simply letting it sprout weeds, brown-eyed susans or whatever else comes.

But what is particularly galling to some congressmen and nearly all taxpayers is that a good chunk of the $3.3 billion winds up in the pockets of the wealthiest farmers.

The J.G. Boswell Co. of Kings County, Calif., last year took $3,010,042.

The same outfit earned even more — $4,091,818 in 1967. Presumably this means Boswell planted less, to earn more, though the congressional record is vague on this point.

Four other farm corporations were paid more than $1,000,000 in this way from the federal money tree.

And, indeed, there is one member of Congress who makes the agriculture department's short list — Sen. James O. Eastland, (Dem. - Miss.), who is a member of the Senate Agriculture committee. His cotton plantation got $116,978 from Uncle Sugar.

The House voted for a similar limitation last year, but the Senate vetoed the proposal.

However, there is a new element at work this time. This year the opponents of farm subsidies have linked the inequalities with the issue of hunger and malnutrition in the United States.

## Rotten Program

Rep. Silvio Conte, for instance, put the situation in



these terms: why should one farm receive $3,000,000 in payments when 15,000,000 suffer from malnutrition?

He labelled programs that pay farmers not to plant acreage "wasteful, inequitable... one of the rottenest"

Leading newspapers commented adversely. The New York Times wrote of the "bitter harvest" of testimony before the committee concerning "this nation's wrong way agricultural policies."

The Times pointed out that in the current fiscal year, the total outlay for farm income stabilization programs comes to about $4.5 billion, while the total for surplus commodities and food stamps, the programs aid the poor, comes to only $564,000,000.

"Thus, the nation spends about eight times as much propping up farm prices as it does helping the poor eat".

As the issue emerged in the House of Representatives this week, it was clear that congressmen aren't trying to kill off agricultural subsidies entirely.

Rather, they are anxious to eliminate inequities and abuses. Said Rep. Conte, one of the sponsors of the subsidy-limiting amendment: "the only guy we grab is the rich farmer, the guy who is getting richer and richer and richer."

Rep. Ray J. Madden (Dem. -Ind.) reviewed some of the startling payments made under the government's "relief bonanza" to wealthy farmers.

He noted that in 1967, 25 operators got payments ranging from a low of $442,327 to a top of $4,091,818. These 25 farmers shared $22,766,943 in subsidies. He singled out certain states. In Texas, alone, 1,826 farmers got more than $25,000 each, for a total of $74,000,000. In California, 624 farmers hit the subsidy jackpot for more than $25,000, as did 443 in Arizone and 817 in Mississippi. (+)

(cont. from 30) This is a deterrent to speculation, but also avoids the disadvantage of taxing an old resident out of his home, through no fault of his own, because