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S.E.S. NEWS-Letter

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THE SCHOOL OF ECONOMIC SCIENCE
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October, 1973

Calgary October Meeting

NEW LOCATION NEW GAME

Date: Friday, October 19th, 1973

Time: 8:00 p.m.

Place: Club Room, 8th Floor
Calgary Public Library (Central Branch)
North of City Hall
Corner of 6th Avenue & Macleod Trail S.E.

THE NEW GAME, called "Stock Market," is much shorter than our previous games but this time there is no charge—except for coffee.

Relive the 1929 STOCK MARKET CRASH —IN SIMULATION THIS TIME!

Players form teams and act as investors to see how well they can do the second time around.

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CIVILIZATION, in a sly way, is a suspicion that the other fellow may be right. - Charles McCabe

LET'S PUT A HANDLE ON LAND!

We note with interest that Henry George is quoted in the article "Putting a Handle on Land Speculators" by Douglas H. Fullerton which appeared in the July/September 1973 issue of Nature Canada, a publication of the Canadian Nature Federation.

> The land of every country belongs of right to all the people of that country; it cannot be alienated by one generation. Private ownership of land has no more foundation in morality or reason than private ownership of air and water.

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A TRUE CONSERVATIONIST is a man who knows that the world is not given by his fathers but borrowed from his children.

- Audubon Magazine

1973 SCHOOL CONFERENCE

Printed below are some highlights of the 1973 School Conference as they appeared in the July - August issue of "Henry George News"

This year's Henry George School conference, which took place in Toronto July 4th through 7th at Glendon College of York University, was a dual event. Entitled "Conference on the Property Tax", the annual get-together presented not only the customary panel discussions and reports by directors and teachers, but also a seminar series

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- help homeowners now clamoring for property tax relief see how many tax dollars they would save if improvements, the larger part of their assessment, were untaxed and the burden shifted to the land, the smaller end of their home assessment;
- enlist the help of province or local Homeowners Association to show homeowners that only the shifting of property taxes from improvements to land would benefit them tax-wise;
- do not waste time trying to persuade the provincial government to make the tax shift obligatory throughout the province;
- try to identify property tax reform with the self-interest of everyone, including builders and real estate dealers;
- don't try to effect the shift faster than the market can adjust to it;
- urge prompt abolition of the common practice of assessing homes at a higher percentage of their value than acreage or vacant land;
- show municipal authorities that land is the only taxable that cannot move away to escape a tax increase—that is why, concluded Mr. Prentice, New York's Deputy City Administrator is loudly proclaiming "It's time to mine the tax treasure underfoot!"

Saturday evening brought the final event of the convention program, the closing banquet, which concluded with the now traditional presentation of a silver tray to an outstanding Georgist for exemplary services during the preceding year. This year's award went to Arnold A. Weinstein, president of the Henry George School of Social Science in New York.

in the promotion of site value assessment, and teaching methods and educational aids in disseminating the principles of land value taxation.

The closing panel was devoted to a review by the conference specialists of their seminar discussions with the Ontario government officials. The specialists felt they had made an impact on the officials, and opened the door to further discussions with them.

Social Activities included a Reeves' Luncheon, Mayor's Luncheon, guided bus tour of Toronto and environs, as well as a wine and cheese party tendered by Mr. & Mrs. Malcolm McCarthy and evening "at home" get-togethers extended by various Toronto School members.

An event on Saturday's program was the Opportunities Luncheon, at which the guest speaker was Perry Prentice. Mr. Prentice's theme was "What Can We Do About It?" He pointed out that, since most competent economists today are pretty well agreed that improvement values should be taxed much less and land values much more, property tax reform is hardly a current issue (even though land speculators try to make the voters think it is).

Mr. Prentice then proposed nine suggestions to follow to encourage political action on property tax reform:

- talk less about the tax on land and more about the tax on improvements;

- take advantage of today's alarm over urban decay by urging immediate tax abatement or exemption for all improvements on existing buildings;

● The following article is based on a presentation given at the recent meeting of Calgary graduates, which centred around a panel discussion on . . .

THE NOSE HILL QUESTION

by Gaye Shaw

I see nothing unique in the issues surrounding Nose Hill! If that surprises any of you, I'll attempt to clarify my position.

Many people have spent a great deal of time analysing the problems of Nose Hill, but consider for a few minutes, that the conflicts surrounding Nose Hill might be manifestations of a larger problem. Let's ask ourselves this question:

When the Nose Hill issues have been resolved, will anything have been done to avoid the identical conflict next time a development vs park situation arises?

What would the Nose Hill issues have been if LAND DIDN'T COST ANYTHING? It's hard for us to imagine—land, in a growing urban community, having no market price—but just consider how the issues surrounding Nose Hill would be altered if such were the case. Let me stress here that I'm talking about a market price of zero—I'm not implying the land would have no value. Perhaps then, the cost of land is the root of the larger problem I referred to.

This brings me to ask—WHY are Calgary taxpayers even TALKING about something in the neighborhood of $12,000.00 per acre for a piece of Alberta prairie land that you can't even grow wheat on? What makes it so expensive? Or, WHY did Alberta citizens pay $10 million for a park at Fish

Creek, where the land is largely flood plain and scrub-covered steep banks, considered unsuitable for development?

To answer these questions, perhaps we should ask a more fundamental question—what gives value to land? Value attaches itself to land by means of an effective demand for land. Economists generally agree that the market price of a site is in direct proportion to the demand for that particular site.

It is probably obvious to everyone that a downtown location in Peace River would cost considerably less than a similar lot in downtown Calgary or Edmonton. This brings us to the relationship of population to market price. Perhaps the market price could be traced this way:

- population creates greater anticipated future benefits from a site;
- greater anticipated future benefits from a site create a larger effective demand for it;
- with competition in the market place, greater demand for a site raises its market price.

At this point, speculation rears its head. The effect of speculation is to keep land out of use. The speculative land may be vacant, or it may be in a state of under-use, such as a slum building or flat downtown parking lot. However, the demand for the use of land remains, and land being in fixed quantity, it's something we can't make more of as we need it. So, doesn't it seem reasonable that because the speculative land is not available, the pressure for sites that are available is greater—forcing the market price up?

If the cost of land is a problem, then what

veal to the governmental representatives the benefits of land value taxation. Among the specialists were Ted Gwartney, chief assessor of Hartford; Professor Arthur Becker of the University of Wisconsin, director of economic research of the Robert Schalkenbach Foundation; Dean Dick Netzer of New York University; Professor C. Lowell Harriss of Columbia University; Professor Steven Cord of Indiana University; Judge Jim Clarkson of Southfield; Perry Prentice, president of the Robert Schalkenbach Foundation; Eli Ophek of the Toronto School, and James Ramsay, director of the Calgary School. Officials and specialists met for two full days, simultaneously with the holding of the regular sessions on Henry George School activities.

"Action Reports" were given by representatives from various schools and co-operating organizations who told of the work they were doing.

Malcolm McCarthy, director of the host school, outlined its general theme. Among other comments, he urged the use of the term "site value assessment" in place of "land value taxation," because of the frightening effect the word "taxation" frequently creates.

James Ramsay, of Calgary, spoke of the 10-week and 28-week courses his school conducts, as well as a new 5 or 6-week mini-course now being compiled for high school social studies classes. He said new teachers have been added, that graduates and faculty members participate in organizations and political parties, and that open channels are maintained to people in all fields to promote the school and its work.

Panel Discussions were held on research activities cost of servicing.

- The lower land acquisition prices to developers could be reflected in lower housing costs or building costs of any kind.
- The lower building costs could be reflected in more reasonable rentals of both a residential and commercial nature.
- Slum buildings would be replaced without any urban renewal schemes at the taxpayers expense.

Which brings me to the advantage most pertinent to Nose Hill.

- When the citizens of a city or province decide they want land for parks, they could acquire it at a price that wouldn't involve putting future generations into debt.

In this way—shifting all property taxes to land values—the uniqueness of the "Nose Hill issue" disappears, and identical "conflicts" can be avoided in the future.

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<u>CONFERENCE</u> (cont'd from p.2)

for city and town officials. The seminars, sponsored by Toronto's School of Economic Science, were attended by thirty-two Ontario mayors, aldermen, planners, assessors, and other minicipal officers, as well as a federal official, there as an interested observer.

Taking part were a number of academic and professional specialists, whose aim was to re-

do we do to bring the market price down? CAN the market price be decreased? Many groups have tackled these questions and brought forward solutions. Here are a few. No doubt you can think of others:

- Some think the capital gains tax on earnings from the turnover of land will solve the problem.
- Some think the government should assemble land banks.
- Some think expropriation of land through a board of arbitration is the answer.
- Others consider that nothing less than the nationalization of land will solve the problem.

There's an alternative however, that hasn't been discussed to the same extent as the ideas I've already mentioned, and that alternative is this: REMOVE TAXES FROM IMPROVEMENTS (buildings) AND PLACE THEM ALL ON LAND VALUES. It's important of course, that all land be uniformly assessed and taxed for such a shift in emphasis to be effective, and I'll touch again on that later.

This method of REMOVING TAXES FROM IMPROVEMENTS AND PLACING THEM ALL ON LAND VALUES has been called "Creative Taxation" by some who have studied it. Perhaps upon first hearing the phrase "Creative Taxation", it may seem to be a contradiction in terms, but the people who advocate such a system are convinced that several advantages to society would follow if land values were taxed according to the potential of land. I'd like to touch on some of these advantages in a moment, but first to get to the question—HOW would this system reduce the market price of land? I'd like to quote from the book "Real Estate Appraising in Canada", which is a text used by the Appraisal Institute of Canada:

"It can little matter what it may have cost to develop a property; its value is measured through the present worth of all the future benefits that likely will accrue through its ownership. Future benefits do not necessarily indicate money; they can also indicate such subjective factors as pleasurable living as with a house, or amenities as with a park or forest reserve. The value of the property is to be found in the satisfaction it offers, and its ratio of exchange in the market can be measured in terms of money."

Perhaps that statement could be presented in a more simple context. Suppose a man is interested in buying a particular site—he has to figure out how much he is willing to pay for it. He will assess the benefits likely to accrue to him from his ownership, and the greater the benefits he anticipates, the more he's going to be willing to offer. The smaller the benefits he expects, the less money he's going to be willing to offer. Whenever people buy land, it is the anticipation of future benefits that they're really buying. Now, a tax imposed against the value of the land will have the effect of reducing the benefits to the individual title holder.

In one extreme, if there were no tax on the land at <u>all</u>, the individual would reap the entire future benefit. As a tax is applied or increased, these future benefits that remain with the holder fall, and so does the market price. On the other extreme, a high annual taxation rate, approaching the annual economic rent, would cause the market or selling price of land to approach zero.

The market price of all Calgary land would

be reduced if the taxes on improvements were shifted to land. The amount of this reduction would vary however, because under the rules of our property tax system, the taxes in relation to value can differ greatly between sites in the city.

For instance, some of you may not know that the Nose Hill land is assessed at an agricultural rate, and the ceiling for agricultural land is $40.00 per acre. This stems from a provincial regulation which states that—when an urban municipality annexes land, it will continue to be assessed as it was before—UNTIL IT IS DEVELOPED.

When it is considered then that the maximum assessment on Nose Hill is $40.00 per acre, vs something like the $4,000.00 per acre it WOULD be if the land were assessed like other locations in the city, it gives some idea of the benefits accruing to the owners of that land, and why its market price is so high.

In other words, this special low assessment (and thus the low taxation rate) is making the price of Nose Hill land disproportionately high. This same situation applied to Fish Creek, and applies to any other land within our city limits which is assessed at the agricultural rate.

Now, let's consider a few of the advantages of land value taxation to society that I mentioned earlier.

- First, the speculator. He would soon realize the increased cost of holding his land out of production and do one of two things. He'd develop it to its potential himself, or release it to someone who would.
- Urban sprawl would be reduced—thus reducing