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LAND VALUE TAXATION IN CANADIAN LOCAL GOVERNMENT

**Being Constructive Criticism
ON
Reports on
Provincial-Municipal Relations
by
British Columbia - Alberta
Saskatchewan - Manitoba**

by

HERBERT T. OWENS

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PROVINCIAL - MUNICIPAL TAXATION

*Constructive Criticism of Reports
on British Columbia, Alberta, Saskatchewan and Manitoba.*

In the years 1947 to 1953 Commissions in the Provinces of British Columbia, Alberta, Saskatchewan and Manitoba have inquired into Provincial-Municipal relations in matters of taxation.

This critique aims to evaluate the opinions and the conclusions of these various Commissions, and where necessary to present constructive criticism of their Reports. Their primary purpose was a taxation study, and though they deal with some other related subjects such as educational costs, hospitals etc., this critique will be confined to taxation.

Their reports are open to criticism on the following grounds: —

1. They give an incomplete picture of the economic background of Western Canada during the past fifty years.
2. They ignore or slur over the real causes of the economic events of this period.
3. They take a parochial instead of a world-wide view of taxation practices.
4. They fail to render adequate or sound judgments on all subjects they were appointed to study.
5. They recommend changes which are definitely contrary to the best interests of the people concerned.

The Economic Background — Three Periods

The economic history of these four provinces divides conveniently into three periods or stages, as follows: —

- I. Rising values from pioneer days to World War I, culminating in a frenzy of land speculation.
- II. Falling prices of land from 1915 to 1940, an enormous decline from the preceding era.
- III. Recovery beginning 1941, stimulated by inflation during and after World War II.

Period I. RISING LAND PRICES.

Among the causes that stand out as contributing to the rise in land prices were :—

1. Enormous railway construction. Construction of railways with money borrowed outside of Canada was an inflationary influence.

2. Influx of settlers from Europe, the United States and Eastern Canada, attracted by free and fertile land offered to all who would homestead it and bring it into use.

3. Formation of the Provinces of Alberta and Saskatchewan from areas previously administered from Ottawa as part of the Northwest Territories.

Site-Value Taxation

At an early stage in those considerable developments, legislation was adopted giving power to municipal authorities to concentrate taxation on land values by reducing or eliminating the assessment of buildings and other improvements. We have to see however that there was failure to implement the provisions of those statutes, in the sense that the actual imposition and the due collection of the site-value taxes were neglected by the municipalities, a circumstance that certainly contributed to the persistent rise in land prices.

Exemption of Improvements

Cities exempted improvements from municipal taxation as follows :—

City	Total exemptions	Percent exemptions
Vancouver	1910 — 1918	100
Victoria	1911 — 1918	100
Edmonton	1904 — 1918	100
Calgary		75
Regina		70
Saskatoon		75
Winnipeg		33½

Other municipalities exempted improvements by various percentages, usually substantial, and many exempted them completely. In rural municipalities taxation on improvements was either nil, or very light.

The Land Boom

The rapid development of this great area of prairie land under these circumstances produced an enormous land-boom.

There was a notable passion for "bigness" throughout the west. Young municipalities vied in acreage with larger, long established cities in Eastern Canada. In 1911 the relation between population and acreage in typical Canadian cities was as follows: —

City	Population	Acreage	Population per acre
Edmonton	58,820	26,856	2.2
Calgary	63,605	25,368	2.5
Winnipeg	179,087	14,865	12.1
Vancouver	163,320	10,547	15.5
Montreal	618,500	32,254	19.2
Toronto	521,893	21,760	24.0

"Bigness" imposed heavy demands for local improvements. The situation would have been better if the cities had exercised some kind of control on the size of the areas developed in relation to the existing population. Site-value taxation which was imposed proved itself to be insufficient to check excess speculation in land. Revenues obtained by this method would have been ample to provide for all normal development. Yet the municipalities burdened themselves with heavy commitments for interest and sinking funds for an influx of settlers who actually arrived much more slowly than was expected. The failure to apply site-value taxation in order to, at least, keep out of debt was to lead to enormous difficulties in the future.

Period II. FALLING LAND VALUES.

The peak in land-values was reached in 1914, then followed a collapse, and a long decline which continued until 1940. The total rise in the boom, and the full extent of the collapse, cannot be determined. The best indication available is the record of municipal assessment totals. These do not tell the whole story. It is certain that there was a lag in assessments, because values as shown by actual transactions changed very fast. In periods of fast-rising prices the tendency would be for assessments to be too low. There is no question that, after prices started to drop, assessments were maintained at levels well above the going prices for land. This is proven by the accumulation of unpaid taxes, and of relinquished lots when prices fell.

Although most of the land was still vacant this was the time when some municipalities began again to tax improvements. Because of their debt burdens, their creditors became more and more insistent,

and revenues had to be obtained somewhere. None of this should have been necessary, because under site-value taxation there would have been no such debts. Those who had made unwise investments, particularly in vacant lots, abandoned them. Those who had buildings on their lands were more apt to remain with the investment, and bore the bulk of the tax burden.

It appears from all the evidence that, if site-value taxation had been applied unflinchingly in its entirety throughout the boom period, wild speculation might have been largely prevented. However, it appears also that in such remorseless application of the principle the municipalities would have had revenues far beyond their needs. One may surmise that perhaps the Provinces should have shared in the site-value revenues. To a large extent it seems that the beneficiaries of the speculative boom were the "wrong people". They must have sold before 1914, reaped a large unearned increment, and, if they held onto their profits, most probably withdrew them from the West. Those who "stayed with it" were left with the load.

Bursting of the Boom

In order to relate more fully the story of the times immediately preceding and following the bursting of the land boom, we reprint some sections of an article which appeared in *Land & Liberty* in July, 1920, and again in its issue of August, 1922. The article is entitled "Land Value Taxation in Western Canada", and it has a subheading "The Tax Arrears" and "A Reply to Allegations." These excerpts reproduce the atmosphere of the period, as well as giving in some detail its contemporary flavour. The article rebuts "the misrepresentations so sedulously spread abroad, on the platform and by the Press, to the effect that the taxation of land values has failed in Canada," and reads as follows:

"The critics and opponents of Land Values Taxation, in their unhappy search for something that may pass in argument, have hit upon the discovery that certain towns in Western Canada have been or are in financial trouble; that they did for a time raise all or most of their revenue from a rate on land value; that they have allowed large sums of uncollected taxes to accumulate, and that they have returned to or adopted the taxation of improvements in addition to rating the value of land... Edmonton in Alberta, for example, collected in 1916 only \$2,235,126 from its rate on the value of land alone. Its tax arrears at the end of 1916 were \$5,250,257. It has since begun

to tax improvements. Vancouver, in British Columbia, for example, collected in 1918 by its land value rate \$3,131,537, and its tax arrears at the end of 1918 were \$5,456,453. In 1919 Vancouver taxed improvements (in addition to taxing land at 100 per cent. of its value) to the extent of 25 per cent. of their value, and the tax was increased in 1920 by assessing improvements at 50 per cent. of their value."

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

The Fruits of Land Speculation

"Recent municipal finance in Western Canada is but one chapter in the history of extravagant land speculation that began in 1910 and came to a climax in 1914, the inevitable crash being precipitated by the war. There had been a rapid growth of population, and the construction of thousands of miles of railway. Land values were "boomed" until they were on a purely fictitious basis. That inflation had certain inevitable results... In Western Canada, according to the Report published in 1918 by Mr. Thomas Adams, Town Planning Adviser of the Canadian Commission of Conservation, there were 30,000,000 acres of idle land a great part contiguous to the railways, and of good quality. * All this land was held out of use for a further rise in price awaiting the increased population which never came. Meanwhile, the towns and cities indulged in the gamble in urban land, and the fever overcame responsible town councils as well as private operators in the real estate market. A tremendous burden of debt was assumed by nearly all the municipalities in the constant push to raise values still higher by spending public money on extravagant and prodigal undertakings, which in turn helped to advertise the vacant lots of the land speculators."

Unwise Municipal Debts

Land & Liberty continues:

"If we consult the Canada Year Book for 1918, we may see how heavily mortgaged some of these mushroom towns were, and how

* C.P.R. and Hudson's Bay Company Lands.

much of the revenue, now "difficult" to collect, must be paid away in interest upon debt, contracted for unwise and wasteful expenditure. The assessed land value, where we are able to state it, may be compared with the debt and the rate-revenue; and the relation of one to the others should be borne in mind during the rest of the story we have to tell. *The return to or the adoption of the taxation of improvements is not due to economic necessity, but to the political influence of the land jobbers and to the speculative borrowing of the municipalities themselves.*

A Saskatchewan Report

Land & Liberty also reprints part of a 1917 Report by Dr. Robert Murray Haig made to the Saskatchewan Government on "Taxation in the Urban Municipalities", and the following paragraphs are illuminating.

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

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

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

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

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

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

The True Cause of Arrears

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

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

Land & Liberty continues:

"It is significant that in Vancouver, where at the end of 1918, the debt was \$41,669,196 and the tax arrears were \$5,456,453, there had been no tax sales since 1909. *The Vancouver City Council apparently took no steps to collect the arrears by proceeding as it could do against the defaulters, and obliging them if they cannot pay to surrender their land.* The land value rate was not, in fact, levied in

these cases. The interests of the speculators coincided with the municipal scheme of trying to finance the city through a period of depression on the basis of real estate valuations which had no existence in fact."

Legislation to Enforce Tax Collection

Land & Liberty adds:

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

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

The Evidence of an Ex-Mayor

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

South Vancouver troubles started with the collapse of the real estate boom, which reached its apex in 1914. To understand the situation, one must consider that the Municipality of South Vancouver covers 14½ square miles, and being adjacent to Vancouver City to the south, it was, from 1907 to 1914, subject to the greatest land speculation ever seen in British Columbia. Before 1907 it had a very small population. The population today is in the neighbourhood of 25,000, and is composed mostly of the labouring class, who own their own homes. During boom days, real estate speculators bought acreage, subdivided it into mostly 25 and 33 feet lots. In order to make these lots accessible, roads had to be built, side-walks laid, water and sewer systems constructed, trunk line streets paved, and all this at the expense of the municipality. The consequence of this unreasonable real estate boom was, when it collapsed in 1914, that thousands and thousands of lots were in the hands of speculators who had made only the first or second payment. They had purchased these lots on a basis of a city with a million population, and in 1914 found that, with the declaration of war and the condition of

the money market, they could not sell their property or make further payments. Thus they did not attempt to pay taxes. Again, there were mortgage companies which had advanced money to the parties who had originally subdivided large tracts. It was difficult to push foreclosure proceedings to a successful issue on account of the Moratorium Act. Therefore, taxes were allowed to accumulate. The Canadian Pacific Railway Company holds thousands of acres in the municipality. They, together with other large interests, succeeded in persuading the Commissioner to tax improvements, thus getting their assessments reduced and the rate lowered. The appointment of a Commissioner was made without the consent of the residents of South Vancouver, who had a duly elected mayor and council. It was the result of a political play by the party in power. They saw a chance of standing well with the large mortgage and loan companies by making this move, supplemented by a promise to tax improvements and lessen the assessments on ground values. Ninety per cent. of the residents of South Vancouver immediately formed themselves into a protective association, and went on record as opposed to the taxation of improvements.

Every municipality in British Columbia, together with the Provincial Government, had a falling off of its revenue from 1913 to 1918. Not every municipality exempted improvements. Those that taxed improvements were hit as hard as those that did not. Upon the signing of the Armistice in 1918 the affairs of all cities and municipalities in British Columbia began to mend, and in another year will have become normal.

The South Vancouver Protective Association, composed of residents who own their own houses, are almost to a unit in favour of the exemption of improvements from taxation, realizing, as they do, that they are now paying the piper, for the benefit of non-resident vacant lot owners, all of whom initiated the various extravagant improvements during boom days, all of whom could vote on money by-laws, and who planned the campaign in much the same manner as do political parties, having headquarters in Vancouver, with committees to see that every owner of a lot in South Vancouver was taken to the polls. It was the vote of these outsiders that legalized the money by-laws for improvements, that should not have been undertaken for years, the consequence being that, when they could not dispose of their holdings, they began to campaign to place the burden of taxation on the residents of the district. Large mortgage companies loaded up with these agreements of sale, and the large holding companies devised the scheme of not paying their taxes, and thus forced the municipal government to seek aid from the outside. As soon as the Commissioner began to tax improvements, these corporations began to pay up their arrears, and money began to come into the municipal coffers."

Land Value Taxation Justified

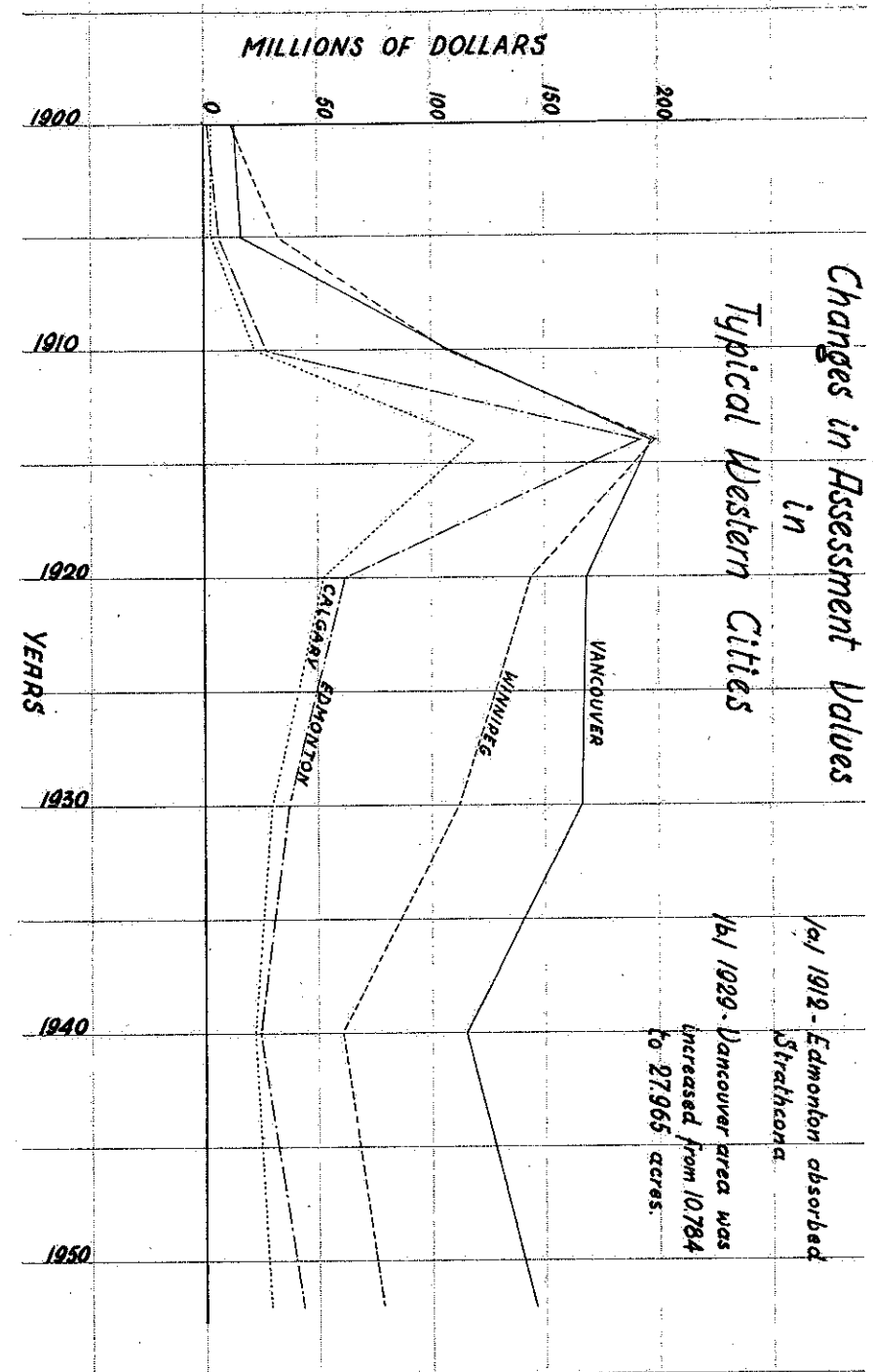
Land and Liberty concludes: We content ourselves with one more quotation. Lieut.-Colonel William Grassie, in a special article on the "Real Estate Situation," contributed to the MANCHESTER GUARDIAN, Canada Number, 15th June, 1920, says:—

A great wave of real estate speculation set in about 1910, which continued without interruption till the summer of 1913 when the apex was reached... Even if the war had not intervened the day of financial reckoning could not have been postponed. The war merely precipitated matters and confronted Canada with realities... In the spring of 1917 it was generally admitted that the zero mark had been reached, and since that date there has been steady improvement, until to-day property revenues are nearly back to their pre-war level. Holders of vacant city and town property were in an even worse position than owners of revenue-bearing properties. Taxes were high and had to be paid, and many owners of such property were forced to sacrifice their holdings. As late as the spring of 1919 one could buy for cash choice sites for as low as from one-fifth to one-tenth of the price paid in 1913. But now, surveying the situation in 1920, few can deny that the process of liquidation has not been beneficial, and that in the real estate situation there is now an inherent soundness which was hitherto absent."

Land and Liberty finalizes: "The Taxation of Land Values, where it was enforced, effected its purpose. The speculation in land was checked, penalized and disrupted. Some municipalities did not courageously deal with those owners of vacant lots who defaulted, but they did apply the law in some degree, and with sufficient weight to make the holding of idle land a profitless business — and "few can deny that the process of liquidation has not been beneficial."

Assessed Land Values Taxable

The Chart on page 11 shows the rise, the fall, and the recovery in land-values, as indicated by the assessments of four Western cities over the years from 1905 to the present. The rise since 1940 has been more moderate, and much more soundly based, than the premature and excessive rise before 1914. The West in these recent years has grown steadily in real wealth. There has been a steady increase in production from western farms, forests, mines and fisheries.



— C H A R T —

The percentage declines, from the peak to the bottom of assessed values, were for typical cities as follows: —

City	Assessed land-values (Millions of Dollars)		Percentage of decline
	Peak	Lowest	
Edmonton	191.3	22.9	88
Calgary	119.8	21.7	82
Victoria	89.2	17.8	80
Saskatoon	54.5	14.9	73
Regina	73.8	20.5	72
Winnipeg	199.1	60.4	70
Vancouver	198.9	115.4	42

The big rise took place within four years; the decline lasted for 26 years. The larger cities reduced the exemptions on improvements

Vancouver, from 100 percent to 50 percent.

Calgary, from 75 percent to 50 percent.

Edmonton, from 100 percent to 50 percent on residential, and 40 percent on commercial, improvements.

Victoria, from 100 percent to 66⅔ percent in 1922, 50 percent in 1924, and to 35 percent in 1926.

There was a general increase of taxation on improvements throughout most western municipalities. British Columbia had local option with respect to taxation of improvements, the exemptions varying. In Alberta, in cities, towns and villages, exemptions of improvements ranged from 100 percent down, on the basis of local option, while in Municipal Districts and Local Improvement Districts exemptions were reduced gradually to a statutory one of 33⅓ percent. Saskatchewan settled at a 40 percent exemption except for Regina, which maintained the exemption of 70 percent established in 1914. Farm homes and farm buildings are as a rule entirely exempt. There are some exceptions in British Columbia.

Reverted Lots

The taxation of improvements at higher rates still left a heavy burden on falling land-values. Tens of thousands of vacant lots fell, through tax delinquency and sales, into the ownership of the municipalities. In Edmonton, tax-sales from 1918 to 1921 gave the city title to 41,620 lots of the city's total of 110,000 lots. About 1939, cities owned lots and undivided land as follows: —

Edmonton	60,000 lots plus 451 "parcels".
Winnipeg	36,500 lots.
Calgary	81,270 lots plus 1,885 acres.
Saskatoon	27,800 lots.
Regina	4,900 acres.
Victoria	5,147 lots.
Vancouver	29,424 lots.

It should never be forgotten that the taxation of improvements can cause destruction instead of construction, and reduce the value of land to zero. On the other hand the real value of land is the amount people are willing to pay for its use this year, and the collection of the whole of this amount will not prevent its use.

Tax arrears

The arrears of taxes carried on the books of the municipalities mounted into millions of dollars. They started to accumulate even before the crash in land-values in 1914. The figures are as follows: —

ARREARS OF TAXES

In Thousands of Dollars

City	1913	1916	1920
Vancouver	1,171	5,340	5,370
Edmonton	1,082	5,250	5,279
Calgary	527	3,235	4,946
Winnipeg	984	3,168	3,482
Saskatoon	692	1,002	1,223
Regina	193	612	425
Victoria	261	520	223

Effects of the World Depression

Beginning with 1929, the west suffered from the world-wide depression. But, on top of that, the prairie Provinces, particularly Saskatchewan, the greatest wheat Province, had severe and continuing droughts with consequent crop failures. In Saskatchewan there was "outright and widespread destitution". The area affected in that one Province was equal to almost one-quarter of the improved farm acreage of all Canada. Nearly half of the rural inhabitants of the Province lived there. In spite of heavy Federal relief expenditures, the per capita debt of the Province grew to the highest among all the Provinces, with British Columbia second. In Manitoba the burden of relief was second only to that of Saskatchewan. Economically, Alberta fared somewhat better. In spite of ruinously low prices for grains, Alberta succeeded, by imposing heavy taxes on falling land-values, in reducing its debt by 20 percent, a greater proportion than any other Province.

British Columbia suffered from the loss of export markets for forest, mine and other products, and was caught in the same general depression as all other trading nations.

This disastrous period in the West started long before the world-depression; it was intensified by climatic vicissitudes such as have not been seen before or since in that area, and it lasted practically for a generation. One must take all this into account when considering how the people fared during the period, their great efforts to meet their obligations so far as they could, and the comeback which they have made since 1940.

(For the story of this Western depression, see pages 168-172, Book 1, of the Royal Commission on Dominion-Provincial Relations).

Period III. LAND VALUES RISE AGAIN.

Land values started about 1940 to rise from their lowest level. The rate of advance has been much more orderly than the first one, with its fantastic rises within the four years which ended in 1914. This is a fact, although inflationary forces have been much stronger in the later period. It seems to prove that land values may be counted on to make steady increases on which those in charge of municipal budgeting may rely with every confidence.

The increased values since 1940 are due to increasing population; to an increase in production and trade at a greater rate than the population; to the formation of new families; to immigration; to the decline of emigration from Canada; and to inflation which, ever since 1933 as a matter of fact, has been decreasing the value of the dollar. There has doubtless been some extra demand for "real-estate" (land plus improvements) as a hedge against the declining dollar.

Except for inflation, all of these factors are normal, especially for a country such as Canada which has more land than people in comparison with almost all of the rest of the world. An expanding economy should persist in Canada until the country has developed very far beyond its present stage. Over the long period, there must be increasing demand for land, and consequently rising prices for land, in Canada. The Chart on page 11 shows the rise from 1940 to 1952 in some typical western cities. A continuation of the same trend is, over the long term, certain.

Actions and Policies of Governments

Canada is a federation of Provinces. The Federal Government appointed in 1937 a Royal Commission to enquire into Dominion-Provincial Relations. The Commission produced its report in 1940 (commonly called the Sirois Report). Its findings have ever since guided Federal policy.

A major result of the Report was a transfer of certain important tax fields from the Provinces to the Federal government. Agreements have been reached with nine Provinces (Quebec to this date has refused to accept such an agreement) by which the Federal government took over succession duties except in Ontario and Quebec, and corporate and personal income taxes. In return, the Federal government makes annual payments to the Provinces based on various formulae. One effect is to equalize to some extent the disparities in relative natural wealth which exist between the Provinces.

These agreements deprived the Provinces of important direct revenues to which they were accustomed. In spite of the fact that such revenues were replaced, more or less accurately, by Federal grants which were given in return, several Provinces felt the need to make enquiries of their own into the revenue relations between them and their municipalities. Accordingly, British Columbia, Alberta, Saskatchewan and lastly Manitoba, in that order, set up

Commissions to study these matters. These have reported, and some of their recommendations have already been implemented by the respective Legislatures. New Brunswick later set up a similar enquiry and Ontario has one in process. This critique will be confined to the reports of the four western Commissions.

There has been a trend towards closer Provincial supervision of assessment practices with a view towards standardization. Some large cities, such as Toronto, have made complete new re-assessments, chiefly because of the rise in values since 1940. In the course of these, the valuations of old buildings, including old residences, have been raised to accord with replacement costs. This is perhaps a questionable practice with very old buildings.

Throughout Canada the costs of education have increased to a degree which causes growing concern. Education is, under the B. N. A. Act, a Provincial responsibility. In British Columbia municipal councils are required by the Provincial government to levy educational taxes at higher percentages of the building assessment than are collected for other purposes of the municipality. In Alberta school taxes are based on 100 per cent of the assessment.

Site-value Taxation vs. Taxation on "Real Estate"

The principal difference in taxation policies between Eastern and Western Canada is that buildings and other improvements now enjoy a full or partial exemption in the West particularly in the rural sections. In Western Canada this is often called the Single Tax, although that term is a misnomer. The imposition of site-value taxation is in reality not the imposition of a tax; it is the collection, by the community, of the economic rent of land.

The economic rent of land is created first of all by geological forces, and, secondly, by the growth of the whole community. It could be applied to the needs of one or more levels of government. It has been noted that, in the days of the western boom in land values, its collection in full would have produced revenues far beyond municipal needs.

In Western Canada the taxation on land-values, and on improvements, to whatever extent these are assessed and taxed, is primarily applied to the needs of the municipalities concerned, although in some cases the Provincial governments take a share for specific purposes. There is practically no use of revenues from land-value taxation for Federal purposes.

In Eastern Canada the almost universal system is to assess improved land values, and similarly all buildings and improvements. These valuations are added together, and the same mill-rate is applied to the sum to determine the amount of the taxes, hence it is sometimes termed a composite tax. This system is also called the capital value system. This term may lead to some confusion because of the use of the term — unimproved capital value — for the tax on land values only, which is used in Australia and New Zealand to an increasing extent. Accordingly, the term "real-estate" will be used here, which denotes the combination of improved land values, and the improvements thereon. Eastern Canada is an example, therefore, of the general use of the system of taxing "real-estate".

When "real-estate" is taxed, there is discrimination against the land-holder who improves his property, and in favor of the land-holder who keeps, for example, vacant lots, or lots with improvements which are too small in relation to the area and location of the lot.

The system favors harmful speculation by encouraging the holding of land out of use, at a relatively low tax cost, in the hope of obtaining higher prices for it after the community has grown. Thus the owners of vacant lots, or of lots with little improvements on them, in the end pocket the unearned increment value which accrues from the development and services of the whole community. Hundreds of millions of unearned dollars by this means have gone into the pockets of speculators to the vast detriment of those members of the community whose work created the increased values.

Residential vs. Central Land Values

In the case of residential property the value of the land is usually only a fraction of the value of the buildings upon it. When such property is assessed on the "real-estate" basis, the bulk of the taxes which the owner must pay is on the value of his improvements.

In commercial and industrial properties the value of land more nearly approximates the value of the improvements. In many cases the land value is the greater value. Furthermore, such buildings are used in the production of wealth. There should be no taxes on the production of wealth. "Real-estate" taxation imposes an undue proportion of taxation on residential property, and a tax on production in the case of commercial and industrial properties. Accordingly there should be no tax on buildings and improvements in either case, but a tax only on land, assessed at its unimproved value.

Tenants must pay more rent for housing where the improvements are taxed. The proprietor of an old, out-moded, building on valuable land may retain such a building because, due to obsolescence allowance, it is assessed at a moderate value. Thus do slums develop in every large city. The "real-estate" system gives a bonus to the owner who retards the development of the community.

Under the site-value system of taxation, the tax is exactly the same on two lots of equal area in similar locations, although one may be highly improved and the other vacant. Land-owners therefore are encouraged to put their land to its highest and best use. They have an impelling incentive because they will retain all the income which the improvement can earn for them. There is a community saving in the cost of providing improvements such as streets, etc.; and many wasteful practices, such as the stretching out of the transportation system past vacant areas, are avoided.

Site Value Assessment saves Municipalities Money

The most intricate and costly assessments are required in order to value correctly buildings and improvements. All such must be measured in detail. If a business tax also is imposed, and this is frequent, another set of calculations may be necessary. All this adds a great deal to municipal expenses, to the cost of collecting the revenue. Mr. John A. Zangerle, past president of the National Association of Assessing Officers (U.S.A.) states it in this way: —

"Site valuation is far cheaper than the capital valuation of land and buildings... It requires but a few employees to appraise the land of a large city. Our large cities could no doubt save several hundred thousand dollars if they appraised land-values only... Other processes involve more chance for error in the appraisal of buildings, not involved in site-valuation alone."

The cost of site valuation is about one-sixth the cost of building valuations. Not only would more precise assessment be obtained at less cost, but there can be no question that there would be much less temptation to corruption, favoritism, and bribery. Land is something which cannot be hidden. Equal lots, side by side, could not be assessed at different values.

Vacant Lots

The effect of vacant lots on civic financing was presented to the Special Committee on Civic Finance in Vancouver in 1940 by Mr. E. S. Woodward, in the following terms: —

"Despite the existence of 120,000 parcels of land within the city (Vancouver), and despite the fact that most of them are already serviced at enormous public expense, and that only half of them are in use, private interests are marketing more and still more sub-divisions every year. The taxpayers have been warned that they must be prepared to incur more debt in the construction of sewers, roads, etc. It seems that no one questions the sanity and the propriety of an arrangement which leaves tax-payers struggling with the cost of servicing thousands of unused lots already available and at the same time imposing on them further debt and higher taxes to service still more lots."

Western Canada's Experience with the Site-value System

The western Provinces seized on the advantages of the site-value system because of its greater theoretical control of land speculation, and its simplicity for municipal financing. Municipal authorities could not foresee that the Federal government would clamp down on further immigration, nor that World War I was approaching. These events found most western communities over-extended, and in debt for prematurely built improvements. The Provinces might have shared in the site-value taxation revenues, but not only did they fail to do so, they also borrowed large sums. The final result was that, when the crash did come, more money was lost by the ultimate land-owners than would have paid in cash for all the community services which were supplied.

Despite the debacle caused by excessive speculation in land (which even the small measure of site-value taxation must have checked to some extent) the western Provinces still cling to the principle of substantial exemptions on improvements. One thing appears to be proven by the era of speculation, namely, that site-value taxation is an enormous source of potential revenue. The municipalities would not have been able to absorb all the money which this taxation would have produced.

SITE-VALUE TAXATION IN OTHER PARTS OF THE WORLD

The various enquiries on Provincial-Municipal Relations ignored the tax experience available from other parts of the world which practiced the site-value system of taxation. None of these four Commissions discussed adequately the incidence of taxation, and the effects of such incidence, although this is one of the most important characteristics of all taxes.

Denmark has a Commission which is considering the application of the revenue from site-value taxation to the needs of all levels of government. This would be a 100 percent application of the site-value method for financing all government services. It is not necessary at first to determine whether site-value taxation will provide sufficient revenue for all government expenditure. The important point is that, *until all the economic rent of land has been collected in taxation, no other taxes need be imposed.*

About the same time as Western Canada adopted site-value taxation it was being introduced in Australia, New Zealand and later in South Africa. In all these countries it has been a success and its use has increased; only in Western Canada is it being challenged and more especially by the Commissions whose findings are the subject of this critique.

Why have these other countries found it so successful that its use is extending, while in Canada moves are being made to curtail it? May it not be that the Western Provinces are making a mistake?

The main reason seems to be that in these other countries land-speculation was better controlled. With the exception of a period in Australia's early history, land-speculation was not allowed to run wild as it did in Western Canada from 1900 to 1914. A more detailed statement of the history of site-value taxation in other countries would be useful.

New Zealand

Land speculation in the early 19th century resulted in the growth of huge estates. Governor Sir George Gray used a land tax for the purpose of breaking them up. In the decade 1890-1900 site-value taxation was introduced, on an optional basis, and spread because of general acceptance. The huge estates were finally broken up. Three systems are now in force in New Zealand, the site-value method being decidedly in the lead, as follows: —

Category of taxing unit	Number of units	Method of Taxation		
		Site- value	"Real- estate" value	Annual rental basis
Cities	13	10	—	3
Boroughs	121	85	18	18
Towns	47	22	21	4
Counties	124	60	64	—
Totals	305	177	103	25

(New Zealand Year Book — 1951-1952.)

The 177 taxing authorities who use the site-value system represent 58 percent of all the taxing authorities. In most of these, there is total exemption of all buildings and improvements on the land.

(Since the foregoing table was compiled Clutha County has adopted site-value rating.)

In addition to these local taxes, the Federal authority levies a land-tax, with exemptions of NZ £ 500 on all values up to NZ £ 2500.

Australia

The two States of *Queensland* and *New South Wales* (which are similar in constitution to Canadian Provinces) levy taxation only on site-values for municipal purposes, except that in Sydney and Newcastle districts the Metropolitan Water and Sewerage Board levies a rate on the annual rental value of land and improvements.

In *Victoria*, site-value taxation is optional. Twenty municipalities and three shires (in Canada, Counties) have adopted it. These 20 include 16 out of the 31 cities which comprise Metropolitan Melbourne, although not Melbourne itself. However, more than 50 percent of the area of Metropolitan Melbourne is under site value taxation.

The optional basis obtains also in *South Australia*. The site-value system operates in six corporations of the Metropolitan area of Adelaide, though not in Adelaide itself. It is in effect also in 9 other municipalities and in seven district council areas.

In *Western Australia* the city of Albany and the towns of Bunbury and Midland Junction levy rates on site-values. In the 127 Road Boards, local rating of site-values is applied universally. In 15 goldfield divisions of these Road Boards the site-value revenue is supplemented by a tax on improvements; 15 districts rate on site-values only; and 89 road districts derive by far the larger part of their revenues from site-values.

Canberra Federal Territory

Australia acquired, early in the century, about 700 square miles as a Commonwealth capital area. Here land cannot be bought, but can be obtained by leasehold on payment of an annual rental. Local government revenue is obtained by site-value taxation.

It should be kept in mind that in both Australia and New Zealand taxes for education do not appear in Municipal budgets. They are State expenditures.

Union of South Africa

Taxation of site-value began here, about 1917. Of the 287 municipalities in the Union, 101 either exempt improvements entirely or levy a lower rate on them. Of these 23 exempt buildings entirely. Johannesburg (population 800,000, the largest city in the Union), and Bloemfontein exempt buildings entirely. In Durban, and in the capital, Pretoria, improvements are taxed lightly. In the Province of Cape of Good Hope, only 6 out of 146 municipalities rate on site-values, this being the lowest ratio in the Union.

Other British African Possessions.

In Rhodesia, Kenya and Tanganyika, the site-value system is used in varying degrees.

United States of America

In Pennsylvania, the cities of Pittsburg and Scranton initiated in 1917 a system whereby the exemptions on improvements, which had formerly been taxed at 100 percent, were increased by degrees to 50 percent where they remained for many years because of State laws. In 1951 the Legislature extended similar powers, on an optional basis, to the 47 cities designated as in the third class.

Denmark

More success has been achieved here than in any other country of Continental Europe. In 1916, a general valuation of the land was made based on *selling values* apart from improvements. Frequent revisions followed, and now revaluations are made every fifth year.

Under the Act of 1922 a small and uniform national tax is levied annually on the value of all landholdings, urban and rural. A considerable proportion of the revenues of the counties and parishes (and some part of borough revenues) is derived from this source.

A 1926 Act applied land value taxation for local public revenues, thereby reducing to a lower percentage the tax on buildings and improvements. In the country districts the average level of the local taxes on land values now stands at more than 3 per cent. of the selling values, making possible a big reduction in local taxes on improvements and personal incomes.

In the towns the local land value tax is not so high as in the country. In Copenhagen it is nearly one per cent of the selling values (equal to about one-fifth of the yearly values.)

CRITIQUES ON PROVINCIAL - MUNICIPAL RELATIONS INQUIRIES

1. BRITISH COLUMBIA — Commissioner H. Carl Goldenberg

The first Inquiry was that of British Columbia. Mr. H. Carl Goldenberg, a Montreal lawyer-economist, was appointed a sole Royal Commissioner in February 1946 and rendered his report in January 1947. He was earlier retained by the Rowell-Sirois Commission in its Dominion-Provincial Relations surveys. Mr. Goldenberg enjoys considerable repute in Provincial Investigations and in Capital-Labor relations.

The Royal Commissioner found that there were 99 municipalities in British Columbia, which for our purposes fall into the following groups.

Exempting Improvements altogether	2
Improvements taxed 25% or less	3
Improvements taxed 30% to 45%	10
Improvements taxed 50%	62
Improvements taxed over 50% to 65% (ceiling)	22
	—
	99

Uniform exemptions recommended — not approved

The Commissioner's judgment was that the existing Assessment Acts should be repealed, and that taxation on improvements should be made a uniform 75 percent, which meant that the exemption on buildings would be a uniform 25 per cent. This recommendation, if adopted, would have abolished the right of municipalities to set their own taxation and exemptions.

The Commissioner's recommendation was not, however, implemented by the Legislature, which decided that municipalities should retain the right to determine their own rate of taxation and exemption. But the maximum ceiling at which buildings could be taxed was raised from 65 per cent to 75 per cent.

Business Tax proposal approved

The Commissioner noted further that British Columbia, unlike most of the other provinces, had no "Business Tax"; so he proceeded to remove that "reproach" and British Columbia levied its first business tax in 1948, apparently on a voluntary basis. Mr. Goldenberg defined the business tax as follows:

"The most common form of taxation in Canadian municipalities, apart from the tax on real estate, is the business tax. It is a tax on the occupier of premises used for carrying on any business, trade, profession or other occupation, except agriculture, and is imposed in all the Provinces, except British Columbia and Prince Edward Island." (p. 73)

Note that the Commissioner says that this is a tax on the "occupier of premises," i.e., another tax on production.

Abuse of assessment practices disapproved

The Commissioner remarked upon evidences of "poor assessment practices and inefficient tax administration," on which he enlarged as follows:

"Although the law requires that assessment be based on "actual value", it has been admitted... by a number of municipalities that they have not reassessed real estate for periods of more than ten, twenty, or even thirty years! In effect, in many cases, the assessor merely copies the figures from the preceding assessment roll year after year. In other instances, where the assessor attempts to approximate "actual value", he is subject to restraint by the council when the result of his efforts would be an increase of assessments." (p. 62)

Since all systems of real estate taxation depend upon fair and just assessment, widespread practice of the kind described above would reduce to chaos any system in which it occurred.

Misunderstands site value taxation

But preeminently apparent in Commissioner Goldenberg's report are his own misapprehensions of what the site value system implies. He speaks of the "inflation in land values" when Single Tax principles were first applied, and testifies that the "appreciation of these values alone yielded all the revenues required by municipalities." He goes on: "In these circumstances, improvements were gradually exempted and the burden of taxation was intended to be borne by the land speculator and absentee owner." (p. 58)

Here is given, in the italicized words, the first of the misapprehensions referred to. The proponents of Site value taxation had no such expectation; all they anticipated was that the burden of taxation would be borne by *land values*. The great bulk of the land values of any municipality is to be found in the commercial and financial districts, such areas as Wall Street, the Loop district of Chicago, the square mile of London known as The City, Hastings and Granville Streets in Vancouver, Jasper Avenue in Edmonton, Portage Avenue in Winnipeg, St. James Street in Montreal, etc. and in the main streets of small towns. In such centres are to be found the great aggregations of land values, but they are definitely not the preserves of the "land speculator and absentee owner." The advocates of Site value taxation expected that the reservoirs of land values would carry the bulk of the taxes, as indeed they do, under either the site value system or the "Real Estate" system. The great difference is that under the site value system it is the land, not the buildings, that is taxed and these areas pay a greater proportion of the total tax than under the "real estate" system.

Stability of assessments

The Commissioner further says:

"The experience of British Columbia and of the other Western Provinces has shown that on fiscal grounds alone the exemption of improvements is unsatisfactory. Land has proved to be an unstable basis for taxation since it is subject to a high degree of inflation when the demand for real estate is great, and to a rapid deflation when the demand fails." (p. 68)

The statement of fact is true so far as it goes. But it does not go far enough. The experience of Western Canada at that time is not the norm by which to judge the stability or instability of land values. Western Canada then was in the throes of an orgy of land speculation. Communities borrowed vast sums to finance developments or extensions that never materialized — they gambled and lost. To blame this gambling fever on site value taxation is absurd.

Land not a "narrow" base

The Commissioner continues:

"The argument that the exemption of improvements stimulates building and penalizes the land speculator may have merit in the period of early development of a community, but is not as

applicable to the later period when the community has been substantially developed. Some of the effects of exempting improvements are: (1) To restrict the tax base to the narrow and unstable base which may have satisfied the requirements of the community in its early stages, but which cannot satisfy it in its more developed stage."

Here Commissioner Goldenberg assumes the thing which has to be proved. His conclusion that it would not satisfy a "substantially developed" community is necessary to his conviction that site value is a "narrow base", and that land is an "unstable base". In other words, the wish is father to the thought. Under normal conditions land values are a stable base; and under most conditions they reflect, fairly accurately, the development of the community. As regards the narrowness of the base, even the Report of the Royal Commission on Dominion-Provincial Relations, on which Mr. Goldenberg assisted, recommended the elimination of many taxes, especially those which enter into costs, and greater dependence on the corporate and income tax, which is a tendency to a narrower tax base. It is the economic effect of a tax that counts, not its breadth or narrowness.

Exemption of improvements not a "subsidy"

In the next paragraph of his report Commissioner Goldenberg really goes to town in drawing wrong conclusions. He says that the effect of exempting improvements in developed communities is:

"(ii) To subsidize the holders of large improved properties, commercial, industrial, and residential, who in most instances have greater tax-paying capacity than the owners of smaller properties or of unimproved lands, and whose properties require more municipal services than do other properties."

No one trained in the technique of site value taxation would be guilty of lumping together commercial, industrial, and residential property and vacant lots, as the Commissioner has done in this paragraph; consequently we have to break down this sub-section to analyse it. But first a few comments upon the general tenor of the paragraph. Since the purpose of site value taxation is to change the incidence of taxation from improvements to land, it is absurd to term the relieving of improvements from taxation as a "subsidy." In pure site value taxation both commercial and residential real estate benefit equally from the exempting of improvements and the levying of taxes on site values only. The site value system eliminates abuses that are inherent in the "real estate" system.

Here are some examples of cities which have removed all taxation from improvements and imposed it on land values:

Sydney, Australia: (population about 1.5 million), made the taxation of site values mandatory in 1916. On August 16, 1938, the Town Clerk wrote:

"The adoption of this system by the council had the effect of considerably increasing the rates payable in the centre sections of the city, where land was most valuable, while in the residential sections or outer wards it had the reverse effect."

Johannesburg, South Africa (population about 800,000), reports in a letter dated July 21, 1938, from its City Treasurer:

"It is found in Johannesburg that two-thirds of the rate income is contributed by the central commercial areas of the city... only one third is borne directly by the residential areas."

Wellington, capital of New Zealand: (population 220,000). In an enquiry for the International Research Committee on Real Estate Taxation, the researcher, H. Bronson Cowan, reported in October, 1942:

"That 71.57 per cent of the unimproved land values are concentrated in the two comparatively small business areas of the city, and only 28.43 per cent in the suburban residential areas. Thus this commercial section pays 71.57 per cent of the total municipal rates, leaving only 28.43 per cent to be paid by the suburban areas."

These three instances of cities which have changed from the composite system (a system somewhat similar to that used in Eastern Canada) to the site value system, show that the change raised the proportion of taxes collected from the commercial and industrial sections and lowered that collected from the residential sections. Can that be called a subsidy to "the holders of large improved properties, commercial, industrial"? Commissioner Goldenberg has evidently been misinformed, for where the site value system is in effect the facts show that there is no such subsidy as the composite system gives to the valuable commercial centres of cities.

Residential vs. Commercial Taxation

Mr. Goldenberg supplies the justification for not subsidising commercial and industrial sections when he states that they "have greater tax-paying capacity than the owners of smaller properties or

of unimproved lands" and that "their properties require more municipal service than do other properties." It is precisely because their properties receive more municipal service that their land values are high, for land values reflect the measure of public services conferred on sites.

Specifically, however, Commissioner Goldenberg's reference is to "large improved residential properties," presumably apartments. Under the site value system taxes on real estate are levied only on the value of the sites. Ordinarily districts containing large apartment houses are districts of higher site values than those composed of average small homes. Hence the site owner in the apartment house district will pay higher taxes per unit of area than the site owner in the latter district. The big difference between commercial and residential sites is that generally the assessed value of commercial buildings and improvements bears a much smaller ratio to the value of the site than residential ones. Under the composite system the improvement assessment carries the bulk of the tax load, so the better the dwelling the more the houseowner has to pay thus relieving the commercial and industrial owner of a portion of his just taxes.

Wrong conclusions

It is evident from a reading of the report that Mr. Goldenberg sensed that somebody, somewhere, was being subsidised but not knowing the facts he guessed, and guessed wrong every time. He claims that the site value system gives a subsidy — wrong. He implies that the site value system subsidizes "unimproved lands" — wrong again. The site value system taxes unimproved lands on the same basis as improved lands — on their site value. How then can there be any subsidy here? The facts are that it is the capital value system that subsidizes unimproved land and penalizes the improver of land.

Commissioner Goldenberg cites several specific cases to illustrate his arguments. But seeing that his general theory is fundamentally unsound it has not been thought necessary in this study to discuss the validity of his illustrations.

2. ALBERTA — Commissioner J. W. Judge

Mr. J. W. Judge, Deputy Minister of Municipal Affairs of Alberta, was appointed a sole Royal Commissioner by Alberta in 1947. He rendered his report early in 1948.

Commissioner Judge found that there were 7 cities, 53 towns, and 134 villages as well as 58 Municipal Districts and 60 Improvement Districts in Alberta. For our purposes they may be classified as in the following tables.

Cities			
Improvements taxed	50%	2	
"	59½%	1	
"	66⅔%	2	
"	75%	1	
Business Improvements taxed	60%	1	
Residential Buildings taxed	50%	—	
		7	

Towns			
Improvements taxed	60%	3	
"	66⅔%	26	
"	70%	1	
"	75%	3	
"	80%	4	
"	85%	1	
"	90%	1	
"	100%	14	
		—	
		53	

Villages			
Improvements taxed	Nil	4	
"	50%	1	
"	65%	1	
"	66⅔%	45	
"	75%	2	
"	90%	1	
"	100%	80	
		—	
		134	

The 58 Municipal Districts and the 60 Improvement Districts were provided by statute with an exemption on improvements of one-third.

Recommends taxing improvements 100%

In his historical statement the Commissioner says:

"Very soon after the organization of the Province the tendency towards single tax, or tax upon land values only, became more marked. The Provincial Governments encouraged this tendency by readily acceding to any amendments to charters or Acts designed to carry the municipalities towards a tax on land only. The influence of taxing land values is still apparent, as witness the exemption from taxation in almost all municipalities of a portion of the full value of buildings and improvements." (p. 28)

Despite this evidence of the preference of the West for the exemption of improvements from taxation Commissioner Judge in his "Summary of Recommendations" lists as No. 3: (p. 90)

"Provides for the assessment and taxation of all buildings and improvements at full value in all municipalities."

Commissioner Addresses Municipalities Union

It is evident that the Commissioner does not favour discriminating between land values and building values. In his report he does not discuss all phases of the incidence of taxation and much of what he omits relates more pertinently to it than what he includes. And this, the incidence of taxation, is the crucial question. He continually refers to the "real property tax" as if there is no distinction between the land factor of real estate (which is the provision of nature) and the improvement factor which is the work of man. Speaking in support of his report before the 44th Annual Convention of the Union of Alberta Municipalities, Mr. Judge said: (p. 45)

"Under the municipal ordinances of 1898 [before the Province of Alberta was set up] all buildings and improvements were assessed at full value. The municipality had authority then to levy income tax too, but as speculation in land developed when the province was formed it was considered good business to exempt the improvements and carry on taxing on land only. The first trouble they had with that came after the first war. Then Edmonton was authorized to pass a by-law calling for assessment of buildings and improvements at 25% of their full value. It has gone up to 60% on business buildings and 50% on residences. It always seemed incongruous to me that you should go to work and appraise buildings and after determining the value say: I will take any value. We are the only ones in Canada West of the Great Lakes that assess a portion

of the value of the building... *We have been affected here by the single tax.* (Italics ours) They are all fictitious values anyhow. I don't believe an assessment on buildings at 100% will have any effect on whether a man builds a good home or a bad one... I think I recommended, and of course that is only my opinion, that all municipalities, cities included, be assessed at 100%."

It will be noted that, despite the fact that the site value system (or the single tax system as it is called here) has worked very well abroad, and the whole Canadian West practiced it in varying degrees, and that especially Calgary and Edmonton of all Western cities suffered the most from inflated and subsequently deflated land values, the Commissioner's opinion is that Alberta only "was affected" by it. This is very casual treatment indeed of the quarter-century of declining land values which resulted from the land speculation he mentions. It was pointed out to the Commissioner that his statement that Alberta was the only province west of the Great Lakes that assessed only a portion of the value of buildings was incorrect, that every Western Province was granting varying exemptions on buildings; but he never acknowledged receipt of the information.

Commissioner favors taxing land and improvements uniformly

To return to the Commissioner's Report, however, in it he sets out statistically the situation of the cities and towns given in our tables and does not discuss them further. (p. 40) But in referring to the category of villages, he says: (p. 41)

"The assessment and taxation of land at its actual value and buildings and improvements at a percentage of the actual value does not appear consistent. The Commission is of the opinion that a fair and equitable assessment can be better determined when such assessment is based on the actual value of the land and buildings or when it is based on land values only than when a partial exemption of the actual value of buildings and improvements is provided and it so recommends."

For Municipal Districts and Improvement Districts, the Commissioner repeats the foregoing reason, omitting the clause "or when it is based on land values only", and adds this sentence:

"The Commission recommends that the assessment and taxation of all assessable real property in rural municipalities be on the basis of the actual value of the land together with the actual value of the buildings and improvements."

Is there not a conflict between the recommendations concerning Villages and that which concerns rural municipalities? The Villages recommendation has an "either/or" while that for rural municipalities has only straight uniformity.

There would seem to be little validity in these recommendations. Besides being inconsistent in themselves, the facts of the actual practice of the separate assessment and taxation of land and buildings, not only in Alberta itself and the Canadian West but in other countries, contradicts the Commissioner's opinions.

Legislature confines exemption only to cities

The recommendations of the Commissioner for taxation of land or of improvements in all categories at 100 per cent went to the legislature, and in due course the following enactments were made:

CITIES: From January 1st, 1952, all assessments of land must be at 100 per cent; and 60 per cent of all building assessments. This represents a uniform exemption on buildings of 40 per cent. The cities, therefore, lose their former right to decide their own exemptions.

TOWNS, VILLAGES, MUNICIPAL DISTRICTS and IMPROVEMENT DISTRICTS: From January 1st, 1951, land and buildings are now uniformly assessed 100 per cent. Towns and villages thereby lose their former right to decide their own taxation and exemptions; and the Municipal and Improvement Districts lose their former statutory exemption of 33 $\frac{1}{3}$ per cent.

The four villages which had exempted improvements entirely — Milk River, Sangudo, Coaldale and Gull Lake — became unable to grant exemptions. With all categories but cities now subject to 100 per cent of taxation on both land and improvements, the houseowner will pay more for his house in his annual tax bill and conversely the commercial and industrial owner will pay less to the extent of the large proportion of taxes which will be paid by houseowners. Similarly in cities with reduction in the amount of exemption on buildings, homeowners will pay more and commercial owners less.

The dilemma of Bowden, Alta.

In the proceedings of the 44th annual convention of the Union of Alberta Municipalities, already quoted, there is an illuminating resolution which illustrates the effect of the action of the Legislature

in abolishing the right of municipalities to determine their own scale of taxation and exemption on land and improvements. The resolution was from the Village of Bowden, No. 6, and it reads: (p. 33)

"WHEREAS the Town and Village Act provides for the acquiring of property by expropriation for recreation, cemetery, and nuisance grounds, but not for residential purposes;

AND WHEREAS many towns and villages are unable to obtain building property for residences on account of owners of farm lands refusing to sell or subdivide, or demanding exorbitant prices, and thereby hindering natural expansion of those towns or villages,

THEREFORE BE IT RESOLVED that this convention ask the Provincial Government to amend the Town and Village Act to give towns and villages power to expropriate lands adjacent to urban centres, so that land can be made available for the building of residences or business establishments."

This is a revealing commentary upon the current fever of land speculation in Alberta. The resolution proposes expropriation as the remedy for the holding of land for exorbitant prices, but if the communities had retained their right to exempt improvements and thereby increase the tax on land values expropriation would have been unnecessary. The taxing of site values only, making the owner pay as much tax on an unimproved lot as he would on an improved one, or taxing land at its full value for its best or better use, would discourage the withholding of land from use, or from its best use, curb speculation, and provide the municipalities with a sound means of obtaining at fair prices the land needed for expansion.

The current oil boom in Alberta has accentuated the need for some means of controlling land speculation and preventing the withholding of land from its best use now, in the hope of getting higher prices later, or for any other reason. In our opinion site value taxation provides the best and natural way of doing this.

"A gift to landowners"

In discussing the equity of taxes on land and on property Commissioner Judge says: "The incidence of a tax on land then tends to be on the owner," which is, of course, correct. He continues, apparently on the supposition that someone had made representations that land taxes be repealed: (p. 37-38)

"However, it should be noted that many owners bought their land with the expectation that the tax on land would continue to be levied. It is perhaps trite to repeat here the argument that the repeal of the land tax would amount to a gift to landowners."

Commissioner Judge's conclusion is quite sound. But a tax on improvements is but another way of making a "gift to landowners", for whatever tax is levied on improvements tends to reduce the tax that would otherwise fall on land.

Oil leases and royalties

Although not directly germane to the Judge Report, some commendation may be made regarding Alberta's assertion of the public rights in leases and royalties on its petroleum and natural gas lands. In 1945-46 Alberta was receiving only \$964,549 from this source, but in 1948-49 the revenue began to grow until it is estimated that the province's income from this source in the fiscal year 1952-53 will represent 29.84 per cent of the whole provincial budget. The figures are:

<i>Fiscal years</i>	<i>Fees and Rentals</i>	<i>Royalties</i>	<i>Purchase Price for Leases</i>	<i>Total</i>
	\$	\$	\$	\$
1948-49	2,353,063	1,753,573	8,911,803	13,018,440
1949-50	6,251,852	3,611,118	23,231,448	33,094,419
1950-51	9,772,991	5,189,992	29,080,632	44,043,616
1951-52	15,328,599	11,038,089	13,211,288	39,577,978

Please note that it is the Province, not the municipalities, that gets these revenues. What the municipalities will get depends upon what the Province grants them. At present, the Province seems to favour using this revenue to wipe out the provincial debt, but circumstances will be the determining factor.

3. SASKATCHEWAN — Committee on Provincial-Municipal Relations

Following the example of the two provinces further west, Saskatchewan, in 1948, appointed a committee of three; Prof. G. E. Britnell, head of the Department of Economics and Political Science; Dr. F. C. Cronkite, Dean of the College of Law, both of the University

of Saskatchewan; and Mr. Louis Jacobs, F.C.A., Director of Municipal Auditing and Accounting of the Province, to consider fiscal relations between the Province and its municipalities. This Committee reported under date of October 16, 1950.

When the Committee entered upon its work it found that Saskatchewan's cities, towns, villages, rural municipalities and local improvement districts exempted improvements considerably from taxation. This practice ranged from Regina's exemption of 70 per cent to the general exemption of 40 per cent of the other seven cities. In towns and villages the general exemption was likewise 40 per cent, but in rural municipalities buildings and improvements were almost totally exempt and the taxation of land values was "almost the sole revenue source." (p. 17)

From the standpoint of site value taxation, this situation was not so satisfactory as that which prevailed in 1914, when Saskatoon exempted improvements 75 per cent; Regina, North Battleford and Weyburn 70 per cent; Prince Albert and Swift Current 85 per cent; Moose Jaw 35 per cent; and "about one-quarter of the villages" (p. 17) exempted improvements more than 40 per cent and were permitted by the then existing laws of the Province to exempt improvements entirely if the voters so desired. Around 1915, the land speculation boom burst and Saskatchewan, along with the other Western provinces, thought it necessary to increase the taxation on buildings and improvements, except in the case of Regina, whose exemption has remained at 70 per cent since 1914.

Real property not overtaxed

After a quarter of a century of declining land values (from 1915 to 1940) land values began to rise and they have been rising ever since. The Committee made a very important finding when it stated: (p. 5)

"The allegations that the municipalities are over-burdened and that land is overtaxed have been examined with great care. The result of the investigation has been something of a surprise to the Committee for it has been found that in no sense can it be said that real property in the average municipality is being overtaxed either absolutely or relatively, under present conditions. It is very doubtful if the tax burden on real property has been lighter at any period during the last three decades than at the present time."

Yet, despite this favorable economic finding, the Committee brought in Recommendation No. 8: "That legislation be enacted making all urban improvements assessable at full value for taxation purposes." It implies by the words "urban improvements" that cities, towns and villages should tax land and buildings equally at 100 per cent, but does not suggest that rural municipalities should do so. Indeed, it recognizes that the exemption of farm buildings from taxation is too deeply ingrained in the nature of the Saskatchewan farm-owner to warrant taxation. The Report does hint that "farm buildings" could be included in the tax base as well as "personal property" such as "farm equipment", but it adds significantly "But this practice has never been adopted in rural Saskatchewan." (p. 92). In the same paragraph the Report states:

"It is understandable, therefore, that land should be the chief basis of taxation, and indeed virtually the only basis, for taxation in rural municipalities."

The Committee adds that:

"rural municipalities, as a matter of necessity, must rely almost entirely on taxation of land to provide revenue for essential services. (p. 101)."

The words "matter of necessity" are questionable in this connection. Site values are indeed the natural base on which taxation should rest and it is a question whether, in recommending the taxation of improvements in urban centres on the same basis as site values, the Committee has not misjudged things completely.

Committee urges lumping together land and buildings

The Committee further urged that land and building assessments should be lumped together and reported in one sum as real property. On p. 98 it says:

"The practice of assessing land and improvements separately, the former at full value, can surely be nothing other than a survival of single tax theories. We can see nothing to commend the practice. Neither in law nor in commercial transactions is the building separated from the land. It is certainly true, moreover, that land rarely has a commercial value in use until it is improved and that most taxes are paid from income, directly or indirectly."

Coming from a Committee, one of whose members is a Dean of Law, this is rather specious reasoning. Insofar as separation of land assessments from building assessments is concerned, the usual practice on this Continent is to show the land and building assessment separately. As a matter of practicality it is only necessary to assess site values.

On the same page the Committee says: "Assessment of the building separately from the land, coupled with the use of the cubic content method, yields, in our submission, a very unreliable estimate of value."

Separation of land and buildings urged continued

In making these, among other, representations, the Committee reckoned without the benefit of a rather influential body, viz., the Saskatchewan Assessors Conference. In June, 1951, this body went on record, rather pointedly, as follows:

Moved by Mr. Rintoul (Moose Jaw) and seconded by Mr. Hrenewich (Melfort): That we are opposed to the suggestion contained on page 98 of the Report that

1st — Land and Buildings be assessed as a unit;

2nd — That the method of assessing buildings by the cube rate be dispensed with;

3rd — that buildings be assessed at 100% of fair value.

The Chairman of the Convention, Mr. R. B. Wells, City Assessor of Regina, in a memorandum, cites the chaotic conditions that would emerge if land and buildings were lumped together for assessment purposes and objects, on technical grounds, to the Committee's suggestion regarding the discarding of the cubic foot principle. Furthermore, he opined that the theory of site valuation could not be "brushed off" so lightly as the Committee tries to do; that the widespread practice of site value taxation is something that thinking men could not but observe with sympathy.

A year later, on June 19-21, 1952, the Saskatchewan Urban Municipalities Association met in Estevan and after a detailed and technical recital of the points already dealt with by the Assessors' Conference, passed the following:

1. That the present method of assessment is the most satisfactory method for the public appraisal of urban properties, and being used in most places in Canada and the United States, should be continued in this Province.

2. That assessing improvements in urban municipalities at not more than sixty per cent of their value is justified and should be continued.

3. That the suggested change at the present time would lead to considerable dissatisfaction and is not justified in the present circumstances.

Evidently the two municipal bodies quoted above do not concur in the Committee's proposals. Some of the Recommendations of the Saskatchewan Committee have been implemented by the Legislature, but it has not, so far, implemented the recommendation that land and improvements alike should be assessed and taxed at 100 per cent.

Discrediting land value taxation

One of the obvious things in the Committee's Report, as has been pointed out, was the effort to discredit the theory and practice of site value taxation, or the Single Tax as it is commonly referred to in Western Canada. The Committee seems to know nothing about the practice of site value taxation in other parts of the world, or of the economic importance of that system when it comes to the recovery of the unearned increment of land values for the public treasury, for nowhere in the Report does that aspect of the problem receive any discussion. (Detailed mention of the widespread practice of site value taxation is made in the Introduction to these Critiques.)

In order to sample the thinking of the Committee the following extracts from the Report are cited:

"While it is not surprising to find that land taxation has always been and still is almost the sole revenue source of rural municipalities, the course of urban taxation in Saskatchewan has been more varied. Reference was made above to the "single tax" features of territorial legislation — [meaning the North West Territories prior to 1905 when Alberta and Saskatchewan were carved out of the Territories and made separate provinces] — which were continued after 1905. In the period immediately preceding the First World War many urban units in Saskatchewan went far toward applying this policy of concentrating all taxation upon land. Business and other taxes were repealed and buildings were either entirely or partially exempted. At the peak of the "single tax fever" in 1913, about one-quarter of the villages and some of the towns had adopted some form of the plan. Since then temporary financial stringencies and steadily increasing demands for revenue have

compelled a move towards broadening the tax base. Assessments upon buildings and improvements are now at 60 per cent of value in all towns and villages and in most of the cities. In 1943 the Urban Assessment Committee after a thorough study recommended that this remnant of single tax theories be removed and that buildings be reassessed at 100 per cent of value. Thus far no action has been taken. (p. 17)

The Urban Assessment Committee should not be confused with the Urban Municipalities Association already quoted. The excerpt quoted above is rather striking testimony to the foothold that site value taxation attained in Saskatchewan. The adoption of site value taxation by the whole of Western Canada cannot be correctly diagnosed as a "fever" — the Committee would be more correct to use that word to describe the mania for land speculation that obsessed so many Westerners prior to the bursting of the land boom. Nor would it be in good taste to term the adoption of site value taxation by other parts of the Commonwealth as a "fever" either.

The term "remnant of single tax theories" is hardly a happy expression, but it may serve as a museum specimen for economists of the present and future generations to marvel at. As to the "broadening of the tax base", that is the current jargon of economists who know little of the theory of site value taxation. If the present situation of taxation in Canada in all spheres of government is any criterion, who knows where the conception of "broadening" is going to lead? Most of our present federal taxes were pronounced bad economically by the Royal Commission on Dominion-Provincial Relations, yet we have these bad taxes which enter into costs more prolifically than ever. The virtue of a tax is not its broadness or narrowness, but whether it accomplishes its economic purpose and site value taxation does this primarily by not taxing the products of labour and secondarily by diverting the unearned increment of land values into the public treasuries. No other tax accomplishes like purposes so well and with so little cost.

Furthermore, the increasing practice of site value taxation elsewhere in the Commonwealth refutes the aspersions cast upon it by the Saskatchewan Committee. Moreover, the separation of land from improvements — not lumping them together — for taxation purposes has been advocated by various conferences of Canadian statisticians at Ottawa and six provinces out of ten have been using this method, five of them for half a century or more.

Restriction of site value taxation to municipal field disapproved

Another recommendation of the Committee is No. 5 of their Report: "That the Public Revenues Act be repealed, and that, as a matter of policy, the real property tax field be considered henceforth as belonging exclusively to the municipalities." In another part of its Report it says: "The principle that the real estate tax field should be considered as belonging to the municipalities exclusively in practice is pretty well conceded in Canada."

The Public Revenues Act included the former Wild Lands Act and others, and Wild Lands taxes represented an endeavor, on the part of the Province, to recapture some of the unearned increment for the provincial treasury. In this it aimed at a worthy purpose. The Saskatchewan Legislature has unfortunately recently implemented this recommendation by repealing the Public Revenues Act, and, by so doing, gives the impression that land speculation no longer operates, — a questionable conclusion.

But the recommendation that the real property tax field should be reserved exclusively to the municipalities requires discussion. When the Dominion-Provincial Relations Royal Commission drew up its Report in 1940 it included this provision: "The Dominion, while retaining its unlimited taxing powers, would recognize an obligation to respect the remaining revenue sources of the Provinces." (Rowell-Sirois Report, Book 2, p. 86)

The important clause here is "while retaining its unlimited taxing powers". Although it temporarily undertakes to respect the revenue sources of the provinces, the federal authority does not forever tie its own hands and the way is still open for it to resume its unlimited taxing powers, should a succeeding administration feel that it is in the public interest to do so. If the federal authority were to make a permanent cast-iron arrangement of this abrogation of taxing powers it would be a foolish undertaking, for no government should abdicate its taxing powers. Were it to do this the federal authority would inhibit itself from doing what New Zealand has done. In addition to its extensive use of land value taxation in local government, for at least half a century it has had in effect a national Graduated Land Tax Act. The federal authority in Australia also had in effect for many years the Commonwealth Land Act under which it imposed and collected site value taxes. In 1952, however, against Labour objections, the Menzies government repealed this Act.

However the doctrine that site value taxation should apply only to the municipal field may not always be held by Canadian parliamentary bodies.

4. MANITOBA

In May, 1951, Manitoba set up a Committee of twelve headed by Hon. Douglas L. Campbell, Premier, on Provincial-Municipal Relations which reported in February, 1953. For many years Manitoba has had a uniform province wide exemption of one-third off the assessment of buildings and improvements, in the case of Winnipeg dating back to 1909. The Committee made no change in this exemption. Farm homes and farm buildings also have long been exempt and the Committee recommends the following slight modifications:

- (14) That farm buildings on farms of 80 acres or more continue to be exempt from municipal taxation but that on smaller farms and market gardens building assessments higher than land assessments be taxable.
- (15) That the municipal tax liability of farm buildings located in urban communities and of non farm buildings located on farms be made clear.

As in British Columbia the same situation as to yearly repetition of assessments was noted, for the Report states that "there are in the Province many municipalities which are still using the assessment level established during the 1930's" (p. 115) and comments: "there seems to be no justification for assessment levels which are completely unchanged over the last ten to fifteen years" (p. 113).

The Report seems to have some doubt as to the equity of Business Assessment. It says (p. 119):

The earning capacity of land and buildings has already been reflected in the assessment on the land and buildings. To add the business assessment, and particularly $3\frac{1}{3}$ times the business assessment to that total is to double-count certain parts of the assessment. It is true that business assessment does provide an additional source of revenue to the municipality but it is a matter of local policy whether the business tax is used and to what extent or whether revenue is collected by some other means. In measuring the amount of assistance to be given from general provincial revenues to a particular community, it should be recognized that the problem is to measure local wealth and local earning capacity and that *neither of these is in any way increased by the imposition of a business tax on a high business assessment.* (Italics ours).

One notable omission in this Report is the absence of any discussion on the subject of the incidence of taxation, the nub of the whole question. The Recommendations of the Municipal Members Committee do not distinguish between land and wealth when they say (p. 105) "land is the one article of wealth which exists in every municipality." Land, however, is not wealth: commodities are. The things which God (or nature) made and those made by human exertion — here is the dividing line between the two categories — just as stocks and bonds are not wealth, but only evidences of wealth. Tax incidence on land and the taxing of commodities are related questions; but a tax on commodities (which includes buildings) is uneconomic.

As many of the topics discussed in this very excellent Report have already been dealt with in this Critique further treatment is not considered necessary here.

5. NEW BRUNSWICK

This Province set up a Royal Commission on its Rates and Taxes Act, which reported under date of October 1, 1951. In New Brunswick land and building assessments are lumped together as real property, and the Commission recommends (p. 9): "That the real property tax be maintained as the basis of municipal revenue." There is mention of a possible alternative system, for the Report reads:

"...property represents the real wealth of the country and therefore it should carry the main load; some would go so far as to tax land only on the basis that all improvements accrue to the land. It is not suggested that any modification in this basic principle be made. (p. 23)

By way of comment, in economics "property" consists of two factors, land and its improvements, and the land factor is not strictly considered as wealth.

In the 1952 provincial election the Conservatives campaigned against a Liberal sales tax proposal and changed a Liberal majority of 41 to a Conservative majority of 20.

6. NOVA SCOTIA

This Province has not initiated any government inquiry into provincial-municipal relations, but a report was prepared by Donald C. Rowat, M.A., for the Nova Scotia Municipal Bureau in 1949, of

which official cognizance has been taken by the provincial Government. The report gives considerable space to the rather deplorable system of assessing in vogue in Nova Scotia and sets out a scheme for reorganizing and assessing the various parts of the Province.

To give some idea of the assessing situation, the Report states, on p. 88, that H. R. Colter, Chairman of the Board of Assessors in Saint John, spoke before the 1948 Convention of Canadian Mayors and Municipalities and said:

"Last year, I visited (Nova Scotia) twice for the purpose of addressing groups in order to promote better methods of assessment... The President of the national Association of Assessing Officers who visited (Nova Scotia) last year wrote me these words: "I know of no place where I have been where there is more confusion in assessment practices and less understanding of fundamentals than in Nova Scotia." Scientific methods of assessment are unknown."

No implementation has been made as yet of the Rowat Report, but the Nova Scotia government arranged a school for assessors in the fall of 1952.

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